MOODY'S INVESTORS SERVICE

Credit Opinion: ABN AMRO Bank N.V.

Global Credit Research - 17 Jul 2015

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	Baa3
Jr Subordinate	Ba1
Pref. Stock -Dom Curr	Ba2
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

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Key Indicators

ABN AMRO Bank N.V. (Consolidated Financials)[1]

	[2]**12-14**	[3]**12-13**	[3]**12-12**	[3]**12-11**	[3]**12-10**	**Avg.**
Total Assets (EUR million)	**386,867.0**	**372,022.0**	**392,779.0**	**407,015.0**	**377,081.0**	[4]**0.6**
Total Assets (USD million)	**468,129.6**	**512,624.7**	**517,836.5**	**528,364.5**	**505,870.6**	[4]**-1.9**
Tangible Common Equity (EUR million)	**15,432.7**	**14,700.7**	**12,971.7**	**14,788.5**	**12,313.4**	[4]**5.8**
Tangible Common Equity (USD million)	**18,674.4**	**20,256.8**	**17,101.8**	**19,197.6**	**16,518.9**	[4]**3.1**
Problem Loans / Gross Loans (%)	**2.7**	**2.9**	**3.0**	**3.1**	**2.3**	[5]**2.8**
Tangible Common Equity / Risk Weighted Assets (%)	**14.1**	**13.5**	**10.7**	**12.5**	**10.6**	[6]**14.1**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**37.6**	**39.6**	**46.4**	**42.1**	**38.9**	[5]**40.9**
Net Interest Margin (%)	**1.6**	**1.4**	**1.3**	**1.3**	**1.3**	[5]**1.4**
PPI / Average RWA (%)	**2.6**	**2.2**	**2.3**	**2.0**	**1.2**	[6]**2.6**
Net Income / Tangible Assets (%)	**0.3**	**0.1**	**0.6**	**0.5**	**0.0**	[5]**0.3**
Cost / Income Ratio (%)	**62.6**	**65.6**	**61.5**	**69.4**	**81.7**	[5]**68.2**
Market Funds / Tangible Banking Assets (%)	**30.4**	**30.7**	**34.3**	**36.1**	**33.0**	[5]**32.9**
Liquid Banking Assets / Tangible Banking Assets (%)	**20.0**	**21.8**	**21.8**	**25.4**	**20.9**	[5]**22.0**
Gross Loans / Total Deposits (%)	**115.5**	**120.2**	**120.9**	**120.7**	**125.3**	[5]**120.5**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 28 May, we affirmed ABN AMRO Bank N.V.'s (ABN AMRO) long-term deposit rating and senior unsecured debt rating at A2 with a stable outlook, and both short-term debt and deposit ratings at Prime-1. We also affirmed its subordinated debt at Baa3, its junior subordinated debt at Ba1(hyb) and its preferred stock rating at Ba2(hyb). On the same day, we affirmed the bank's baseline credit assessment (BCA) at baa2 and assigned a counterparty risk assessment (CR Assessment) of A1(cr)/Prime-1(cr).

ABN AMRO's baseline credit assessment (BCA) of baa2 reflects the bank's overall good financial fundamentals including solid capitalization and a sound liquidity position. It further captures the bank's strong footprint in the Dutch market, its balanced business mix between retail and commercial banking, and its private banking activity which undertaken across Europe. The BCA is supported by signs of recovery in the Dutch operating environment, which has gone through material stress during several years. This recovery reduces the risk of further deterioration in the bank's asset performance, as evidenced by the material decrease in credit costs observed since mid-2014.

The affirmation of the A2 / Prime-1 deposit and senior unsecured ratings reflects (1) the bank's standalone credit strength ;(2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch LGF uplift from the adjusted BCA of baa2 given the significant volumes of senior debt and junior deposits and (3) government support uplift of one notch (from three notches previously), reflecting a moderate probability of government support.

The CR Assessment of A1(cr)/Prime-1(cr) assigned to ABN AMRO is four notches above the BCA, reflecting the substantial volume of bail-in-able liabilities protecting operating obligations as well as a moderate probability of government support.

ABN AMRO'S RATING IS SUPPORTED BY ITS STRONG+ MACRO PROFILE

As a primarily domestic bank, ABN AMRO's operating environment is heavily influenced by the Netherlands and its Macro Profile is thus aligned with that of the Netherlands at Strong+.

Dutch banks benefit from operating in a wealthy and developed country with a very high degree of economic, institutional and government financial strength as well as very low susceptibility to event risk. The main risks to the Dutch banking system stem from (1) the household sector's high leverage, with residential mortgage debt exceeding 100% of GDP, offset in part by significant savings as well as the fact that this high leverage is due to historical fiscal incentives, and that the mortgages have continued to perform well even at the peak of the crisis; and (2) the commercial real-estate sector and SMEs, which have been materially affected by a weak economic environment.

The Dutch banking system is materially reliant on wholesale funding, which we consider a credit weakness. Compared to other European countries, it has a relatively low stock of bank deposits because of the legal regime that requires Dutch households to invest a large portion of their savings in pension funds, some of which is returned to the banking sector in the wholesale markets.

Rating Drivers

- A strong position in the domestic market and selected countries

- The bank has a modest risk profile owed to its retail and commercial banking business focus

- Liquidity is sound

- Capitalisation is high but constrained by its leverage ratio

- Profitability was constrained by credit costs but is improving since 2014

- Large volume of deposits, senior and junior debt resulting in deposit and senior unsecured debt ratings benefiting from a very low loss-given-failure rate and two-notch uplift from the BCA

- Moderate probability of government support resulting in one-notch uplift for debt and deposits

Rating Outlook

The outlook on both long-term deposit and senior unsecured ratings is stable. While we recognize that the Dutch operating environment seems to be stabilizing and that the likelihood of a further deterioration has abated, we only anticipate a progressive return to pre-crisis levels of bad debts and higher levels of profitability, and our BCA anticipates a slight improvement. This, together with a stable liability structure and unchanged government support assumptions, underpin a stable outlook on the deposits and senior unsecured debt ratings.

What Could Change the Rating - Up

Upward pressure on the bank's BCA could develop if the bank were to (1) improve its asset quality profile; (2) significantly improve its nominal leverage ratio; and/or (3) improve its profitability. A positive change in the bank's BCA would likely affect all ratings.

ABN AMRO's deposit rating could also be upgraded as a result of a substantial decrease in loss-given-failure, should deposits benefit from higher subordination than currently is the case.

ABN AMRO's senior unsecured rating could also be upgraded as a result of a substantial decrease in loss-given-failure, in the case the long-term unsecured debt were to benefit from higher subordination than is currently the case.

What Could Change the Rating - Down

We might downgrade the bank's BCA as a result of (1) a significant deterioration of the bank's asset quality and profitability; or (2) a negative development in ABN AMRO's liquidity and/or capital. A downward movement in ABN AMRO's BCA would likely result in downgrades to all ratings.

ABN AMRO's deposit rating could also be downgraded as a result of an increase in loss-given-failure, in case deposits would account for a significantly smaller share of the bank's overall liability structure, or would benefit from lower subordination than is currently the case.

ABN AMRO's senior unsecured rating could also be downgraded as a result of an increase in loss-given-failure, in the case the long-term unsecured debt were to account for a significantly smaller share of the bank's overall liability structure, or were to benefit from lower subordination than currently is the case.

DETAILED RATING CONSIDERATIONS

A STRONG POSITION IN THE DOMESTIC MARKET AND IN SELECTED COUNTRIES

ABN AMRO has a strong franchise in the highly concentrated Dutch market, where it is the third largest player in retail banking, enjoying 20% to 25% market share in key products, including mortgages, savings and consumer lending. We consider that outside the Netherlands, its franchise is more limited, although it benefits from good brand recognition in selected countries and for certain activities, such as private banking in France, Germany and merchant banking in the main global financial centres. Around 81% of the bank's operating income are derived from domestic operations.

In private banking, ABN AMRO is ranked first in its home market and has significant activities across Europe. The acquisition of Credit Suisse's private banking operations in Germany in 2014 has signaled ABN AMRO's intention to further strengthen its position in Western Europe in an area which is considered of strategic importance. At end-March 2015, client assets totalled EUR209 billion, up almost 10% from year-end 2014.

The bank has also maintained a strong position in commercial banking. Its domestic market share in business and corporate banking ranges from 25% to 30%. In international activities, ABN AMRO is an important player in some global specialist markets such as Energy, Commodities and Transportation (ECT), as well as Clearing.

THE BANK HAS A MODERATE RISK PROFILE OWED TO ITS RETAIL AND COMMERCIAL BANKING BUSINESS FOCUS

We consider ABN AMRO's risk profile as moderate overall, reflecting its operations that are primarily traditional retail and commercial banking. At end-March 2015, more than 60% of the bank's loan portfolio was composed of exposure to individuals, the bulk of which is residential mortgages. Recent track-record has evidenced smaller concentrations than peers on some higher risk sectors such as commercial real estate. We note that ABN AMRO has been increasing its Energy, Commodity and Transportation (ECT) business with further growth in its onbalance sheet exposure to EUR22.2 billion at year-end 2014 and EUR25.4 billion at end-March 2015 (or 9.5% of the bank's total loan book). We recognize that this portfolio has been historically performing well and that ABN AMRO has a long track-record of providing finance and its expertise in this area. We nevertheless believe that, despite the generally short-dated and collateralized nature of the exposures, this activity's performance, at least in certain sub-areas, could prove less predictable and stable than traditional banking. As we believe this type of business generally induces relatively high single borrower exposures, we will remain cautious on its development.

Being mostly domestic-oriented, the bank's performance has suffered over the past two years compared to more international peer groups due to the unfavorable operating environment in the Netherlands. We nevertheless believe that ABN AMRO's well-diversified, domestic business-focused operations with a large and well-established retail franchise will ultimately prove resilient and stable through the cycle. Dutch assets' performance has started improving in 2014 as the domestic operating environment seems to bottom up after several quarters of pressure, and the positive trend has continued into 2015. ABN AMRO report credit costs down to 38bps in Q1 2015 from 45bps in full-year 2014 and 63bps in 2013. While it could still be too early to assess whether this positive trend is sustainable, but we believe that the risk of further deterioration is now rather limited.

The bank has limited market risk exposure, which accounted for around 5.2% of total RWAs at end-March 2015. It had an average value-at-risk of EUR4.9 million (excluding diversification benefits) for its trading positions in Q1 2015, slightly up from the levels observed in 2014. ABN AMRO has discontinued its proprietary trading activities in 2010; however, it still undertakes some market-making activities, which are relatively small and driven by its corporate clients. The strategic review of market activities carried out by the bank in H1 2014 also led to the decision, inter alia, to discontinue its equity derivatives desk as well as its Markets business in Asia, which we believe evidences ABN AMRO's much reduced appetite for market risks.

The moderate risk profile of the bank is reflected in the assigned Asset Risk score of baa1. The negative adjustment of two notches on the raw score of a2 - which is deriving from the latest problem loan ratio score - reflects metrics such as the cost of risk as a percentage of gross loans and the level of absorption of the bank's pre-provision profit by credit costs.

THE BANK'S LIQUIDITY IS SOUND

We view ABN AMRO's liquidity position as sound, and we expect that it will remain as such over 2015. At end-March 2015, the bank disclosed a loan-to-deposit ratio (LTD) of 112%, which ranks favorably among Dutch banks. It even reflects a good coverage ratio for an institution that principally operates in the Netherlands, a market which is structurally lacking customer deposits (please see our latest Dutch banking system outlook, published on 18 February 2014, for further details). This relatively favorable LTD can partly be attributed to ABN AMRO's strong position in private banking, which brings substantial deposits (representing 29% of the bank's consolidated deposits at end-March 2014) yet generates relatively limited lending. Although private banking deposits could prove less sticky than retail deposits, we believe they will remain an important source of funding for ABN AMRO.

The customer funding gap (around EUR46 billion at year-end 2014) is wholesale-funded. Risks stemming from the reliance on confidence-sensitive source of funding are mitigated by adequate liquidity management, including the control of the term structure of the outstanding debt and the constitution of a liquidity buffer kept at a level that covers all of the bank's short-term liabilities. At year-end 2014, the EUR73.9 billion liquidity buffer represented 363% of all wholesale debt securities maturing within one year (EUR20 billion), while the bank was a net lender in the interbank market, which we consider as more than adequate to cover liquidity risk under our central scenario. This good coverage also mitigates the fact that the liquidity buffer is 43% composed of retained RMBS, which although currently eligible for refinancing with central banks, are likely to have limited secondary market in times of stress. At both year-end 2014 and end-March 2015, the bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio were above 100%, in compliance with EU prudential requirements ahead of the regulatory schedule. All these factors are reflected in our combined Liquidity Score of baa2.

THE BANK'S CAPITAL ISATION IS HIGH BUT CONSTRAINED BY ITS LEVERAGE RATIO

At end-March 2015, ABN AMRO reported a fully loaded Common Equity Tier 1 ratio of 14.2%. Its Tangible Common Equity / RWA ratio was 14.1% as of year-end 2014, which we view as relatively strong in comparison to many of its European peers and against its risk profile. The current capital ratio is above the guidance provided by ABN AMRO which is set between 11.5% and 12.5%, to be reached by 2017. One concern, which is a common feature to all Dutch retail banks, is the relatively low risk-weight of the Dutch mortgages (13.8% at ABN AMRO at year-end 2014) in the calculation of risk-weighted assets. Although reflective of the past performance of this asset class (which has been resilient even at the peak of the crisis), this notably raises the risk that, the Basel Committee and subsequently the European Union could require higher capital charges against mortgages to banks where risk-weights are considered too low, which could be the case at ABN and at other domestic peers. ABN AMRO's leverage ratio at end-March 2015 was 3.5%, still below the 4% minimum level recommended by the Dutch Ministry of Finance (please refer to our sector comment « Higher Leverage Ratio would Be credit Positive for Dutch Banks » dated 30 October 2014). Although we believe the bank will be able to meet the minimum regulatory leverage ratio in due time, the current 3.5% ratio constrains the capital score we assign to the bank to baa1.

PROFITABILITY WAS CONSTRAINED BY CREDIT COSTS BUT IS IMPROVING SINCE 2014

Total income from retail and corporate banking activities have improved in recent quarters, as ABN has managed to offset negative pressure on revenues from reduced economic activity in the Netherlands and low interest rate environment through the re-pricing of its loan portfolio. Helped by improved margins on deposits, mortgages and commercial loans, the bank's net interest margin reached 148 basis points in Q1 2014, slightly down from 153 basis points in full-year 2014, but significantly up from 134 basis points in 2013 and 120 basis points in 2012.

We positively note the bank's strong efforts in upgrading its IT infrastructure, which we consider an essential investment to improve the cost efficiency of a retail-focused bank like ABN AMRO. While the current cost-to-income ratio has ranged from 60% to 64% over the past few years (56% in Q1 2015), the bank's operating efficiency will further improve as the currently implemented IT investments are expected to bear fruit from 2017 onwards.

Weakening economic conditions in The Netherlands since mid-2012 had translated into higher credit costs for ABN AMRO and the other Dutch banks. With signs of recovery in the Dutch economy, we expect the positive trend in asset performance observed over the past year to stabilise the bank's profitability at a higher level than in 2013 or 2014. Our assigned Profitability score of ba1 assumes a slight improvement in the bank's profitability over the coming quarters.

This positive trend is also reflected in a better loss absorption capacity of the bank's operating results : impairment charges on loans and receivables represented 27% of ABN AMRO's operating results in Q1 2015 versus 37% in full-year 2014 and 61% in 2013, excluding the impact of one-off events (transition to new pension scheme and levy for the nationalisation of SNS Reaal in 2014; impairment charge reversals on Madoff-related and Greek-related exposures in 2013).

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

ABN AMRO is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. In calculating the LGF, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

We believe that ABN AMRO's deposits are likely to face very low loss-given-failure, due to the loss absorption provided by the combination of substantial deposit volume (we estimate junior deposits to make up about 11% of the group's tangible banking assets in failure), and subordination of about 5% of tangible banking assets (and 13.6% in the event of deposits being preferred to senior debt). This results in a two-notch uplift from the adjusted BCA.

We believe that ABN AMRO's senior unsecured debt is also likely to face very low loss-given-failure. This is supported by the combination of senior debt's own volume (about 8.4% of the group's tangible banking assets in failure, or 19.4% including junior deposits), and the amount of subordination (about 5%). This results in a two-notch uplift from the adjusted BCA.

For subordinated and junior securities, our initial LGF analysis confirms a high level loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting the coupon features.

GOVERNMENT SUPPORT

The implementation of the BRRD has led us to reconsider the potential for government support to benefit the bank's creditors. As we consider ABN AMRO to be a systemically important bank in the Netherlands we expect a moderate probability of government support , resulting in a one-notch uplift for both the long-term deposit and senior unsecured debt issued by the bank. This compares to three notches previously.

For subordinated and other junior securities, we continue to believe that the likelihood of government support is low and these ratings do not include any uplift. Junior securities also include additional downward notching from the BCA reflecting coupon suspension risk ahead of a potential failure.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at A1(cr).

The CR Assessment, prior to government support is positioned three notches above the Adjusted BCA of baa2, based on the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments amounting to 24.6 % of Tangible Banking Assets. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

ABN AMRO Bank N.V.

Macro Factors	
Weighted Macro Profile	**Strong +**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.9%	a2	←→	baa1	Quality of assets	Geographical concentration
Capital						
TCE / RWA	14.1%	a1	←→	baa1	Nominal leverage	Risk-weighted capitalisation
Profitability						

Net Income / Tangible Assets	0.3%	ba2	↑↑	ba1	Expected trend	Earnings quality
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	30.4%	ba1	←→	baa2	Term structure	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.0%	baa1	←→	baa1	Stock of liquid assets	Quality of liquid assets
Combined Liquidity Score		baa3		baa2		

Financial Profile	**baa2**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Aaa
Scorecard Calculated BCA range	**baa1 - baa3**
Assigned BCA	**baa2**
Affiliate Support notching	**0**
Adjusted BCA	**baa2**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	2	0	a3	1	A2	A2
Senior unsecured bank debt	2	0	a3	1	A2	A2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Junior subordinated bank debt	-1	-1	ba1	0		Ba1(hyb)
Cumulative bank preference shares	-1	-2	ba2	0	Ba2(hyb)	