Research Update:

ABN AMRO Bank N.V. Outlook Revised To Stable; 'A/A-1' Ratings Affirmed; Hybrids And Subordinated Debt Ratings Lowered

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Overview

- We expect Dutch bank ABN AMRO Bank N.V.'s (ABN AMRO's) additional loss-absorbing capacity (ALAC) to stay above 8% of our S&P Global Ratings' risk-weighted assets (RWAs) by end-2022, as the wind-down of its corporate and institutional banking (CIB) non-core business reduces RWAs and the bank increases guidance on senior nonpreferred (SNP) issuance for 2021.
- At the same time, we expect ABN AMRO's profitability to remain under pressure over the foreseeable future, impeded by the prolonged low interest rate environment, the low growth prospects in its targeted market segments, and potential upcoming one-offs, notably due to the wind-down.
- We revised the group stand-alone credit profile (SACP) to 'bbb+' from 'a-', leading us to lower the ratings on the bank's senior nonpreferred debt and other hybrid instruments.
- However, we are affirming our long-term and short-term issuer credit ratings at 'A/A-1', reflecting the continuing strengthening of the balance sheet and the issuance of bail-in-able debt, which enhances the protection of senior preferred creditors.
- The stable outlook assumes a rigorous execution of the wind-down of the bank's corporate banking activities.

Rating Action

On Feb 26, 2021, S&P Global Ratings affirmed its long-and short-term 'A/A-1'issuer credit ratings on ABN AMRO. The outlook is revised to stable from negative.

At the same time, we lowered our issue ratings on the bank's subordinated instruments by one notch, including:

- Senior nonpreferred debt to 'BBB' from 'BBB+';
- Nondeferrable subordinated debt to 'BBB-' from 'BBB'; and

- Additional tier 1 instruments to 'BB' from 'BB+'.

Rationale

Our rating action follows a review of ABN AMRO's earnings prospects for 2021 and 2022 amid a weak economic environment and the ongoing restructuring of part of the bank's CIB activities.

The affirmation of the long-term issuer credit rating, and therefore of the issue ratings on senior preferred notes, reflects the continued strengthening of the bank's balance sheet. The ongoing portfolio de-risking, together with ABN AMRO's guidance to increase the issuance of bail-in-able instruments in 2021, would materially strengthen the bank's protection of its senior creditors. Indeed, ABN AMRO had already made good progress in the exit from some of its cyclical corporate niches outside Europe, such as commodities trading, at year-end 2020, and we believe that the wind-down of these exposures will continue to proceed over the next two years, substantially reducing the RWAs and improving our ALAC ratio to a level compatible with a two-notch uplift. However, at the same time, the prolonged low interest rate environment, low growth prospects in the mature and competitive markets of northwest Europe, cost inflation to strengthen compliance and risk-monitoring systems, and the bank's ongoing internal restructuring will weaken earnings prospects in the next two years.

Portfolio de-risking and anticipated further issuance of senior nonpreferred instruments in 2021 reinforces the level of protection of ABN AMRO's senior creditors by supporting the bank's ALAC buffer. As of Dec. 31, 2020, the bank's exposures in niche, cyclical corporate sectors outside Europe--the CIB non-core business unit--stood at about €11 billion, 45% lower year-on-year, showing a very positive progress. The wind-down of the CIB non-core division represents one of the key pillars of ABN AMRO's new strategic plan, which entails the bank's transition toward a digitally advanced, less risky, but potentially less profitable business model, centered on serving clients in market segments where the bank has scale and pricing power, such as the Netherlands and northwest Europe. We expect the bank to remain committed to an orderly wind-down of the CIB non-core business – which is expected to naturally shrink by a further 35% by end-2023--with the bank potentially selling assets before they mature if price convenient. As a result, we now expect ABN AMRO's S&P Global Ratings' RWAs to reduce by about 8% by end-2022, compared with the €180 billion calculated at end-2019. Our RWA forecasts also incorporate a moderate expansion of the bank's lending portfolio in the domestic market, as well as the bank's intention to focus more on capital-light activities. S&P Global Ratings' RWA calculation does not envisage any inflation following the expected completion of the targeted review of internal models exercise by end-2021 and other add-ons, which could result in €10 billion-€15 billion regulatory RWAs in addition to the €110.5 billion reported at end-2020, all else being equal. We understand that expected regulatory RWAs inflation, as part of the Basel IV process, would drive ABN AMRO to issue a further minimum €4 billion-€6 billion of bail-in-able instruments in 2021, in order to fully meet its 27.1% minimum requirement for own funds and eligible liabilities (MREL) in January 2022. These instruments would increase the available stock of bail-in-able instruments, supporting the bank's ALAC buffer sustainably above 8%, in our view.

Nevertheless, macro-related and bank-specific factors will continue to weigh on ABN AMRO's earnings generation capacity.

With net interest income (NII) forming about 70% of ABN AMRO's operating revenue, we expect the bank's business model and revenue structure to remain sensitive to the prolonged low interest rate environment and lending growth dynamics in the Netherlands and neighboring countries. We expect ABN's NII to decrease by about 10% by end-2022, reflecting persistently low interest rates and relatively contained lending growth prospects in northwest Europe, given the maturity and high level of competition characterizing those markets. We believe that the bank's strategic refocusing on these markets, although making sense under a risk-adjusted return perspective, exposes ABN AMRO to a risk of revenue attrition. Furthermore, the large compliance and IT investments the bank had to undertake as part of the remediation plan on its anti-money-laundering control systems, added to the investments in digital, will likely weaken its historically strong efficiency metrics over the forecast horizon. These revenue and cost pressure will not be one-offs, in our view, and could prove durable. This is why we are lowering the group SACP to 'bbb+' from 'a-' and now place ABN AMRO's group SACP on a par with peers such as Barclays Bank PLC, NatWest Group plc, or Société Générale.

On top of the strategic restructuring and profitability challenges, potential upcoming one-offs could further weigh on ABN's earnings-generation capacity. In particular, the ongoing investigation by the Dutch prosecutor into ABN AMRO's alleged deficiencies in combatting financial crime is still underway. Although we are not yet able to estimate the potential cost for ABN AMRO, we think it is highly probable the bank will have to pay a fine. Despite ABN AMRO's strong execution capabilities, we consider that delivering on its strategic initiatives when the environment remains weak creates an additional obstacle.

Outlook

The stable outlook on ABN AMRO reflects our view that the bank will be able to maintain its S&P Global Ratings' ALAC buffer sustainably above the 8% of its S&P Global Ratings' RWAs over the next two years, as a reflection of a progressive reduction of its risk profile and increased stock of available bail-in-able instruments. Our central scenario assumes a rigorous execution of the de-risking strategy.

Downside scenario

We could lower our long-term and short-term ratings on ABN AMRO over the next two years if:

- ABN AMRO's ALAC buffer were to fall short of the 8% of our RWAs over the next 18-24 months;
- Contrary to our expectations, the wind-down of the bank's CIB non-core business segment proves unsuccessful or far more costly; or
- The bank departs from its historically prudent capital management, with a more aggressive capital distribution, that could compromise our view of the strong capital base.

Upside scenario

Although unlikely at this stage, we could consider raising our ratings on ABN AMRO over the next 18-24 months if the bank demonstrated its ability to generate stable and healthy returns on a sustainable basis, in line with higher-rated peers, and that earnings are no longer burdened by one-offs (due to the restructuring or other costs).

Ratings Score Snapshot

ABN AMRO Bank N.V. Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1	A+/--/A-1
SACP	bbb+	a-
Anchor	bbb+	bbb+
Business Position	Moderate (-1)	Adequate (0)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	2	1
ALAC Support	2	1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
ABN AMRO Bank N.V.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1

Downgraded

	To	From
ABN AMRO Bank N.V.		
Senior Subordinated	BBB	BBB+
Subordinated	BBB-	BBB
Junior Subordinated	BB	BB+
Junior Subordinated	BB+	BBB-

Ratings Affirmed

ABN AMRO Bank N.V.	
Resolution Counterparty Rating	A+/--/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Commercial Paper	A-1
ABN AMRO Funding USA LLC	
Commercial Paper	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.