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ABN AMRO Bank N.V.

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ABN AMRO Bank N.V.

SACP	a-
Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Resolution Counterparty Rating
A+/--/A-1

Major Rating Factors

Strengths:

- Strong capital position and supportive capital policy to accommodate regulatory change.
- A leading market position in domestic retail, corporate, and private banking .
- Clearly defined strategic focus and continuing de-risking in some riskier corporate sectors.

Weaknesses:

- Pressure on revenue from the low-interest-rate environment and on cost control to invest in compliance, conduct, or digital upgrades.
- Sensitivity to the performance of corporate credit exposure--especially to export-oriented clients--likely to trigger additional impairments in case of external shocks, notably the U.K's exit from the EU (Brexit).

Outlook: Stable

Our outlook on Netherlands-based ABN AMRO Bank is stable because we expect that the bank will continue to adapt its balance sheet to regulatory changes while maintaining its leading domestic franchise, solid capital adequacy, and resilient asset quality metrics. We expect rising pressure on revenue from the low-interest-rate environment, but consider the bank to have sufficient pricing power and the capacity to both increase fee income and reduce costs to avoid a too-pronounced erosion of its profitability in 2020 and 2021. The stable outlook also factors our expectation that the ongoing review performed by the Dutch regulator on nonfinancial risks, including conduct or compliance risk, industrywide and specifically at ABN AMRO, will not damage the bank's franchise or earnings capacity. Furthermore, we consider that the expected further gradual reduction of state ownership will remain neutral for the rating.

Downside scenario

We could lower our rating on the bank if asset quality metrics were to deteriorate materially due to exposure to some more volatile corporate sectors, including export-oriented ones, which have so far been resilient, but could come under more pressure as the external environment becomes weaker. We also monitor developments relating to industrywide nonfinancial risks, including conduct or compliance risk, which could damage the bank's franchise or earnings capacity.

Upside scenario

We revised the outlook to stable from positive in June 2019. Therefore, we consider an upgrade in the next 12-24 months to be unlikely, especially any upgrade due to stand-alone specific factors. Indeed, we consider the environment will be tougher for banks. However, we could revise the outlook to positive or raise the rating if the bank issues senior nonpreferred debt instruments sufficiently to build a buffer of additional loss absorbing capital (ALAC) exceeding our current expectation and commensurate with 8% of S&P Global Ratings' risk-weighted assets (RWA).

Rationale

Our rating on ABN AMRO Bank reflects the dominance of relatively stable and low-risk activities in its business mix, with a focus on domestic retail and commercial banking activities, and private banking. With total assets of €396.2 billion at June 30, 2019, the bank is the third-largest in the Netherlands and a leader in some domestic segments. Moreover, it ranks by assets among the 20 largest banks in Europe. However, we believe ABN AMRO has less geographic diversification than other large peers in Europe relative to its size.

With a fully loaded common equity Tier 1 (CET1) ratio of 18% at June 30, 2019, and a projected risk-adjusted capital (RAC) ratio of 12.0%-12.5% by 2020, the bank is strongly capitalized and is preparing for upcoming regulatory changes, targeting a CET1 under the Basel IV framework above 13.5% early in the phase-in period.

A large book of granular and typically low-risk Dutch mortgages, which makes up 54% of customer loans, dominate the bank's risk profile. Although some pockets of risk exist in the corporate book--in the transportation, commodities, and energy sectors--the bank maintains adequate asset quality metrics, with Stage 3 impaired loans at 2.3% of total loans at June 30, 2019. The weaker external environment could moderately deteriorate the currently strong risk metrics, however.

The funding and liquidity positions are sound--not very different from local peers--with a loan-to-deposit ratio of about 113% and a granular base of domestic deposits in the Netherlands.

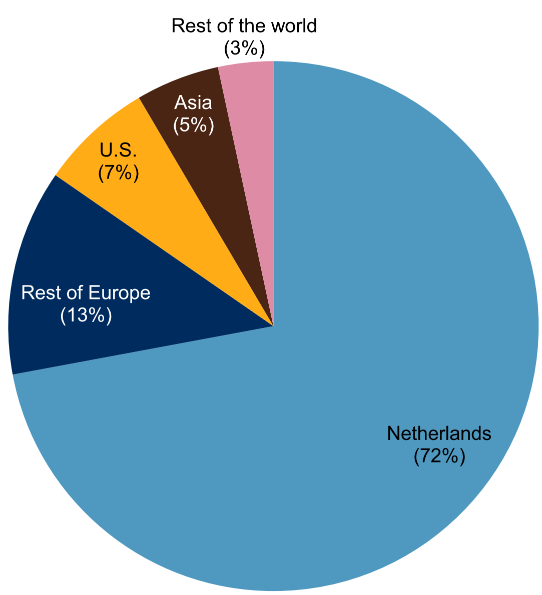
We adjust the 'a-' stand-alone credit profile upward by one notch, reflecting our view of ABN AMRO's sizable ALAC buffer, to arrive at the 'A' issuer credit rating (ICR).

Anchor: A wealthy and currently well performing open Dutch economy, but with a highly leveraged private sector

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which ABN AMRO operates, based on the geographic distribution of its exposure at default (72% to the Netherlands, 18% to Western Europe, and 10% to the rest of the world). The economic risk score for the Netherlands is '3' on a scale of 1-10 ('1' representing the lowest risk and '10' the highest), and the weighted-average score for the countries in which ABN AMRO operates is just above that mark.

Chart 1

Geographical Breakdown Of ABN AMRO's Private Sector Credit Exposure



Data as of end 2018. Source: ABN AMRO's Pillar III report, S&P Global Ratings.

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We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive. This is seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and long track record of prudent and flexible macroeconomic policies in a 'AAA' rated country. The

Dutch economy continues to perform well, with forecast above-eurozone-average real GDP growth of 1.7% in 2019 and 1.5% on average over 2020-2022, while unemployment is very low, at about 3.3%. We believe this environment continues to support banking activities in the country. In the meantime, we also consider that the very open nature of the Dutch economy is a source of volatility. The current global trade tensions and the uncertainty around Brexit will contribute to the expected slowdown of economic growth in Europe. Private sector leverage remains on a gross basis among the highest in the world and constrains the structural ability of the Dutch economy to easily withstand potential external shocks. Economic imbalances have not receded in recent years because of a dynamic real estate market. Nominal property prices rose 8.5% in 2017, 9.2% in 2018, and are expected to rise 6.3% this year. Household indebtedness will reduce over time, with the gradual move away from interest-only (nonamortizing) mortgages, but improvements have been so far hardly visible in absolute terms.

Our assessment of industry risks for Dutch banks incorporates high domestic concentration, which supports generally good margins at large players, and our view of a stable competitive environment. We consider that profitability prospects of domestic banking activities are good in a European context, but challenged by the current low-interest-rate environment. In particular, we observe supportive price discipline in the competitive mortgage segment. Some of the larger banks have completed significant restructuring efforts, and cost-optimization programs continue in the context of the persistent low-interest-rate environment. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We believe that Dutch banks benefit from their access to deep capital markets and the Dutch authorities' good track record in providing liquidity support.

Table 1

ABN AMRO Bank N.V.--Key Figures

	--Fiscal year ended Dec. 31--						
(Mil. €)	**H1 2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	396,012.0	381,131.0	392,987.0	390,956.0	387,511.0	384,159.0	369,656.0
Customer loans (gross)	277,682.0	273,147.0	277,366.0	271,347.0	263,674.0	266,669.0	262,003.0
Adjusted common equity	18,880.0	18,924.0	18,189.6	16,942.4	16,396.0	15,150.0	14,481.0
Operating revenues	4,403.0	9,092.0	8,912.0	8,111.0	8,455.0	8,055.0	7,324.0
Noninterest expenses	2,637.0	5,351.0	5,476.0	5,642.0	5,228.0	4,788.0	4,722.0
Core earnings	1,172.0	2,325.0	2,534.2	1,731.7	1,924.0	1,553.7	1,208.0

Source: S&P Global Ratings.

Business position: A national champion, focused on a low-risk country

ABN AMRO is one of the 20 largest European banks and one of the three universal banks that dominate the Dutch banking landscape. The bank operates in relatively stable businesses: domestic retail, commercial banking, and private banking. The share of cyclical activities like investment banking is marginal.

ABN AMRO is the third-largest bank in the Netherlands, and approximately 80% of its income emanates from its Dutch activities. It has a market share of new mortgage lending of about 20% and a savings market share of about 21%, also serving as the primary bank to about 20% of the Dutch population. We have observed a slight decline in the market share of new mortgage lending in 2018, as ABN AMRO defended its margins, which picked up again in second-quarter 2019. We understand that the bank ranks second in lending to small and midsize enterprises (SMEs) and is a leading player in corporate banking, with good and long-standing relationships with most corporates in Benelux. ABN AMRO is also involved in selected corporate and investment banking (CIB) activities, operated internationally, including financing to the energy, commodities, and transportation sectors, and clearing activity. Overall these CIB operations have exhibited lower returns on equity (ROE) than the rest of the group's ROE, therefore they have been downsized and restructured, with a target of a €5 billion reduction in RWA by 2020.

We believe that ABN AMRO also benefits from:

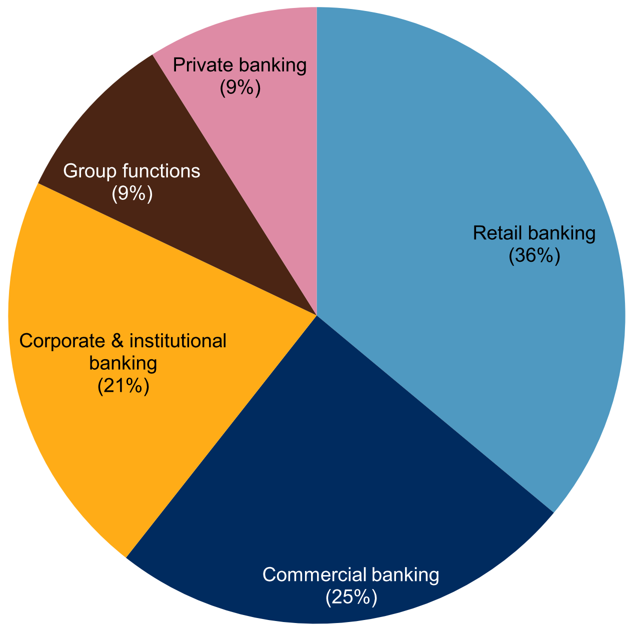
- The size and good standing of its private banking activities, primarily in the Netherlands. It is the leading private bank domestically, but also the third-largest in Germany and fifth-largest in France, managing about €202 billion of client assets, of which about 60% are in the Netherlands. In 2018, the bank sold its interests in private banking units in Asia and Luxembourg but boosted its presence in Belgium with the acquisition of Société Générale's private banking business in the country. The sale of ABN AMRO's Channel Islands operations, representing about €7 billion of client assets, was completed in July 2019. This illustrates the focus on onshore private banking in North Western Europe. ABN AMRO indicated that this sale concludes its divestment of activities in this segment. We view positively this refocus on onshore banking operations.
- Its clearing activities, via ABN AMRO Clearing, which has benefitted from a general market and regulatory trend of more trading volumes going through central counterparties.

The bank has been actively adapting its distribution capabilities to customer behavior changes and cost pressure. The number of retail branches has been reduced to 126 from 469 between 2011 and 2018 as a result of the bank's "digital first" strategy and turn to video banking. The peer-to-peer payment solution TIKKIE has gained attention in the country. ABN AMRO has also launched challenger banks, aside from the main bank, to test innovative propositions.

From a peer comparison perspective, we consider that ING Bank displays greater geographic diversity, whereas Rabobank has a stronger footprint in domestic retail. ABN AMRO exhibits stronger financial metrics, in particular core capital and profitability. A broader international peer group includes commercial banks in developed markets with large domestic market shares, and generally some diversification in commission-generating businesses. Examples include Danske Bank ('a-' group stand-alone credit profile [SACP]) in Denmark, KBC Bank ('a' group SACP) in Belgium, Société Générale ('a' group SACP) in France, or Royal Bank of Scotland ('bbb+' group SACP) in the U.K.

Chart 2

ABN AMRO Operating Revenue Breakdown



Data as of end June 2019. Source: ABN AMRO's Roadshow Booklet, S&P Global Ratings.
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We believe that the bank focuses on preserving its risk profile and reducing operating costs, while strengthening its franchise in the Dutch banking sector and to some extent in Northern Europe.

The bank's main financial targets are:

- A CET1 ratio of 17.5%-18.5% by end-2019, to cater primarily for the move toward Basel IV, which would bring the CET1 ratio down by about 4%-5%.
- A cost-to-income ratio of 56%-58% by 2020 and below 55% by 2022. This ratio stood at 59.9% on June 30, 2019, and we anticipate that in the long run the bank will have difficulty lowering it further in the context of rising necessary investments (digitalization, compliance, information technology) and pressure on interest revenue.
- ROE of 10%-13% (11.4% reported in first-half 2019); which remains a good level in a European context. We do not expect ROE to exceed 10% by a wide margin in the next two years, however.
- A dividend payout ratio of 50%, excluding profit from exceptional items and considering additional distributions if CET1 capital is in or above the target range.

In 2015, ABN AMRO became a listed company following the completion of an initial public offering, which reduced the Dutch government's ownership to 77% from 100%. Government ownership was further reduced by 21% in three separate placements between November 2016 and September 2017 and we expect this trend to continue whenever market performance allows it. For the moment, we consider that the gradual return to the private sector is neutral for the rating, as it does not have a material effect on ABN AMRO's risk appetite or business strategy, because it already operates fully on commercial terms. We consider the management team's focused strategy, with efforts to manage profitability challenges and effects of the so-called Basel IV while optimizing its digital offering, to be sound and relevant from a credit perspective.

Table 2

ABN AMRO Bank N.V.--Business Position							
	--Fiscal year ended Dec. 31--						
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. €)	4,403.0	9,092.0	9,289.0	8,227.0	8,455.0	8,055.0	7,324.0
Commercial banking/total revenues from business line	41.6	44.2	37.9	34.6	36.9	35.2	23.0
Retail banking/total revenues from business line	38.6	38.7	43.0	48.1	45.6	48.9	46.9
Commercial & retail banking/total revenues from business line	80.2	82.8	80.9	82.7	82.5	84.2	69.9
Asset management/total revenues from business line	14.3	14.7	16.6	16.0	15.5	14.8	16.2
Other revenues/total revenues from business line	5.5	2.4	2.6	1.3	2.0	1.0	(1.9)
Return on average common equity	12.1	11.8	14.9	10.5	12.2	8.0	8.5

*First-half 2019 data. Source: S&P Global Ratings.

Capital and earnings: Strong capital position supported by a prudent payout policy

Capitalization is a rating strength. Despite the low interest environment, ABN AMRO continues to boast strong profitability with a ROE exceeding 11%, which puts the bank among the strongest performers in Europe, just below some Nordic banks. The efforts made by the bank to preserve capital buffers, at a time when regulatory initiatives will inevitably inflate regulatory RWAs, will have a positive effect on our own capital metric. The bank is also constrained by its current leverage ratio (4.2%), only slightly above the minimum 4% imposed by the local regulator.

We project our RAC ratio will stand at 12.0%-12.5% by end-2021, compared with 11.6% at end-2018. We include €2 billion additional tier 1 (AT1) hybrid instruments in ABN AMRO's total adjusted capital (TAC). ABN AMRO issued these instruments in September 2015 and April 2017, and we classify these as having intermediate equity.

Our assumptions underlying our base-case RAC projection include:

- 2019-2020 pre-tax profit at €2.8 billion-€3.0 billion, by our calculations, slightly below the €3.1 billion posted in 2018. We factor in a slightly declining net interest margin. Despite good pricing discipline in the domestic mortgage market, the bank suffers like its peers from the low-interest-rate environment. In addition, we anticipate a slight reduction of higher-risk and higher-margin CIB lending activities.
- We assume that 2019-2020 operating expenses will decrease slightly, since cost-reduction initiatives will be largely offset by investments needed to execute the strategic plan, including the continuing digitalization of the banking operations, as well as compliance-related investments. We expect the cost-to-income ratio to be about 60%, or marginally lower.
- An average loan impairment charge of 25 basis points (bps) throughout 2019-2020, which is in line with the bank's own assessment of a normalizing through-the-cycle cost of risk after years of low provisioning requirements.

- A modest rise in S&P Global Ratings' RWAs of 1.0%-1.5% annually over the period reflecting the strategy to contain balance sheet growth in preparation for Basel IV. The objective to reduce CIB RWA by €5 billion has been broadly implemented already. The RWA inflation due to the TRIM and model review exercises was €1.3 billion of regulatory RWAs already at end-2018. These methodological changes have no direct impact on our RAC ratio, however.
- Assumption of no net change in the total amount of eligible AT1 capital. We note that the €1 billion AT1 instrument issued in 2015 is callable in September 2020 and we expect it will be replaced. We expect a dividend payout ratio in the 50%-60% range.

Full-year 2018 reported profit before tax was €3.086 billion (€1.535 billion on June 30, 2019). This was lower than 2017 profits, which were boosted by the sale of private banking operations in Asia, but in line with the medium-term trend. Nearly 75% of the bank's revenue is derived from interest revenue and the bank does not expect meaningful lending volumes to support revenue in the next two years. Among initiatives to develop fees and commissions, ABN AMRO has established partnerships with insurance companies to increase its penetration in this area closer to its market share in domestic retail banking.

We note the current core capital adequacy measure, CET1, is high but the pro forma effect of Basel IV is also material for ABN AMRO, like for its Dutch peers. The difference between ABN AMRO's Tier 1 ratio and our RAC ratio primarily reflects the more-conservative standardized risk-weighting that we apply. Of note, we recognize the benefit of the Dutch government-supported Nationale Hypotheek Garantie (NHG) for mortgage financing by aligning the risk weight of 65% of the guaranteed portfolio with the risk weight we apply to Dutch government debt. The remaining 35% of the portfolio carries the standard risk weight we apply to prime residential mortgages in the Netherlands. The resulting average risk weight aims to capture the risk of noneligibility, and other risks associated with the NHG scheme.

We also note that ABN AMRO's reported leverage ratio, since the legal merger between ABN AMRO Group (the holding) and ABN AMRO Bank, which took effect on June 29, 2019, was 4.2% on June 30, 2019. The merger provided a leeway of roughly 20 bps, which was partially offset by an increase of the exposure measure, supervisory capital deduction and not adding first-half 2019 profits attributable to the owners of the parent company to Tier 1 capital. However, the ratio is still notably lower than peers' and close to the 4% minimum required by the local regulator. It could increase by 60 bps once the new standardized approach for measuring counterparty credit risk for clearing guarantees is in place. We consider the quality of capital to be sound. Adjusted common equity represented about 90% of TAC at year-end 2018.

Table 3

ABN AMRO Bank N.V.--Capital And Earnings

	--Fiscal year ended Dec. 31--						
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	19.8	19.3	18.5	17.9	16.9	14.6	15.3
S&P Global Ratings RAC ratio before diversification	N.A.	11.6	11.2	9.2	9.0	8.5	7.5
S&P Global Ratings RAC ratio after diversification	N.A.	12.2	11.8	9.7	10.3	9.5	8.6
Adjusted common equity/total adjusted capital	90.5	90.4	90.1	94.5	94.3	100.0	100.0
Net interest income/operating revenues	73.9	72.5	72.4	77.3	71.9	74.8	73.5
Fee income/operating revenues	18.8	18.7	19.6	21.5	21.6	21.0	22.4
Market-sensitive income/operating revenues	0.2	6.4	5.7	(2.0)	4.6	1.6	1.3

Table 3

ABN AMRO Bank N.V.--Capital And Earnings (cont.)

	--Fiscal year ended Dec. 31--						
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Noninterest expenses/operating revenues	59.9	58.9	61.4	69.6	61.8	59.4	64.5
Preprovision operating income/average assets	0.9	1.0	0.9	0.6	0.8	0.9	0.7
Core earnings/average managed assets	0.6	0.6	0.6	0.4	0.5	0.4	0.3

*First-half 2019 data. N.A.--Not available. Source: S&P Global Ratings

Table 4

ABN AMRO Bank N.V.--Risk Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government & central banks	78,349.4	700.0	0.9	1,364.4	1.7
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	21,419.4	2,206.3	10.3	4,558.7	21.3
Corporate	123,872.0	46,675.0	37.7	92,872.3	75.0
Retail	176,137.6	20,750.0	11.8	50,114.4	28.5
Of which mortgage	161,841.6	15,325.0	9.5	38,448.7	23.8
Securitization§	415.0	37.5	9.0	83.0	20.0
Other assets†	2,879.0	9,900.0	343.9	4,413.5	153.3
Total credit risk	403,072.4	80,268.8	19.9	153,406.2	38.1
Credit valuation adjustment					
Total credit valuation adjustment	--	500.0	--	0.0	--
Market Risk					
Equity in the banking book	943.0	3,937.5	417.6	8,205.0	870.1
Trading book market risk	--	1,612.9	--	2,384.8	--
Total market risk	--	5,550.4	--	10,589.8	--
Operational risk					
Total operational risk	--	19,075.0	--	16,848.5	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	105,394.3	--	180,844.4	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(8,982.5)	(5.0)
RWA after diversification	--	105,394.3	--	171,862.0	95.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC Ratings' ratio (%)**
Capital ratio					
Capital ratio before adjustments		20,296.0	19.3	20,932.0	11.6
Capital ratio after adjustments‡		20,296.0	19.3	20,932.0	12.2

Table 4

ABN AMRO Bank N.V.--Risk Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data, S&P Global Ratings.

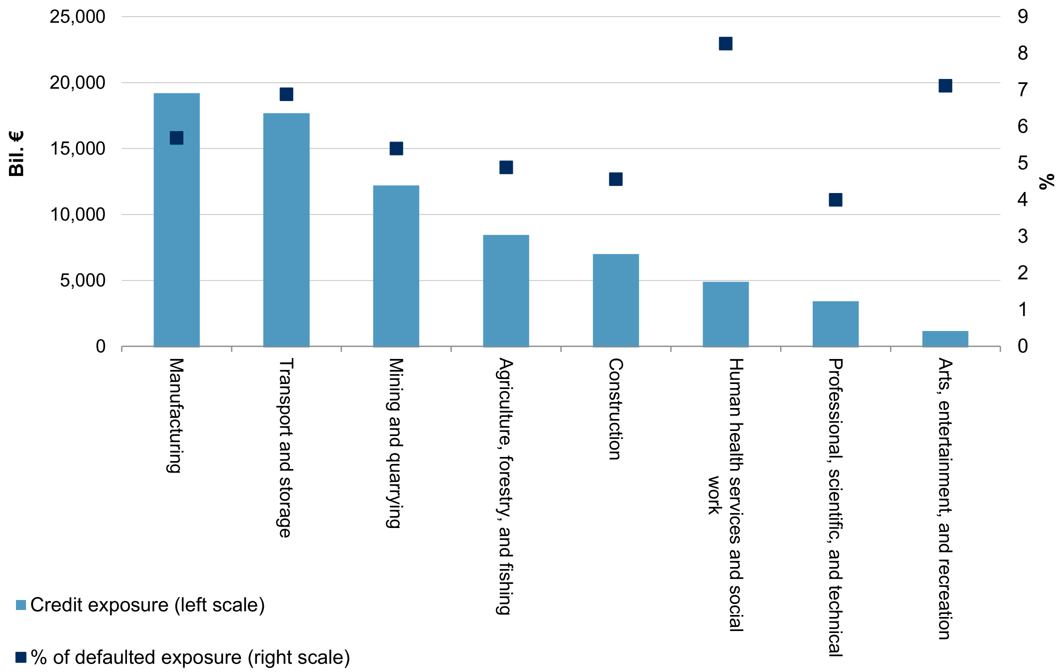
Risk position: Modest risk appetite, supported by a strong retail and private banking franchise, with some pockets of risk in the corporate loan book.

We consider the bank's risk management and exposures in line with those of its domestic industry, and those risks are adequately captured by our RAC framework. Due to the change in disclosures with the adoption of International Financial Reporting Standards 9, we now consider Stage 3 loans as nonperforming. Generally, this results in the asset-quality metrics being not comparable with the historical data, although for ABN AMRO Stage 3 loan ratios are broadly in line with previously reported impaired loans ratios. Stage 3 loans accounted for 2.3% of the total portfolio, while Stage 2 loans made up 4.6% on June 30, 2019. This is in line with peer banks operating in countries with similar economic risks and that have undergone similar changes in reporting standards. As we think the environment will be less benign in 2019 and 2020, with uncertain effect on the Dutch economy and corporates from Brexit and global trade tensions, we expect a modest rise in the number of Stage 3 loans.

The loan portfolio is more than 60% focused on the Netherlands and dominated by mortgages, which we continue to see as low risk. We see the quality of ABN AMRO's mortgage lending book as good and in line with the market average, with one-quarter of total mortgage loans guaranteed by NHG and a portion of full interest-only loans reducing year over year, now at 17% (versus 25% at end-2012). Consumer loans represent only 4% of the loan book at June 30, 2019. The corporate portfolio (about €44 billion) is granular, with moderate sector and individual corporate concentrations, but it hosts most of the bank's impaired loans (76% on June 30, 2019). It includes four main segments: domestic corporate, natural resources (energy sector, including offshore), global transportation and logistics (including shipping), and trade and commodity finance (including diamonds). Some of these sectors could be more vulnerable in a less-supportive environment. The bank's exposure to commercial real estate represented less than 10% of the loan book, but about 50% of TAC at end-2018 (€10.6 billion). Financial investments are essentially high-quality government bonds held as part of the bank's liquidity buffer. Chart 3 below highlights the sector concentrations of most of the defaulted exposures.

Chart 3

Credit Risk Metrics For ABN AMRO's Selected Sector Exposures



Data at end June 2019. Sources: ABN AMRO's pillar III report, S&P Global Ratings.

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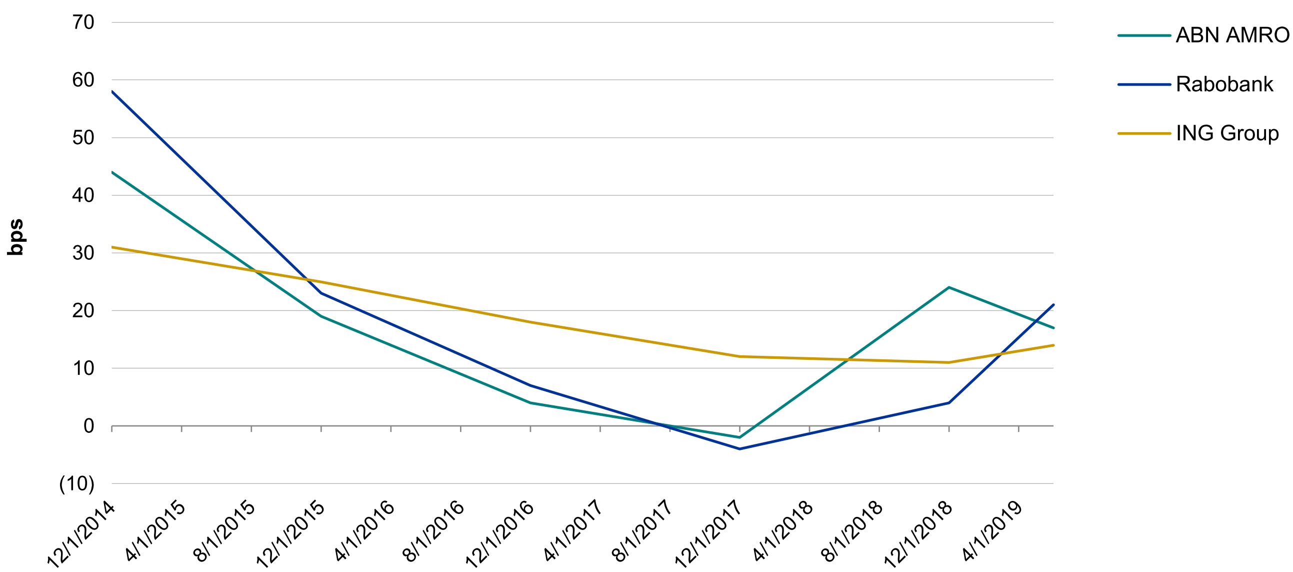
ABN AMRO's loan-loss rate has been declining since 2014, in line with the improvement of the domestic and global economy. However, this trend has started to reverse recently with the cost of risk at 24 bps at end-2018, compared with less than 20 bps in 2015, 2016, and 2017. This mainly resulted from specific impairments related to the offshore services and diamonds sector. Exposure to the diamond sector was reduced by 20%. Management has guided for 2019 impairments to remain below the through-the-cycle range of 25 bps-30 bps, which is in line with our view.

Chart 4

Evolution Of ABN AMRO's Cost Of Risk Compared With Peers'



bps--Basis points. Source: S&P Global Ratings.

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As for other Dutch and European banks, we are monitoring the magnitude and the cost of nonfinancial risks--those emanating from conduct or compliance-related issues. Among others, ABN AMRO is executing the agreement with Dutch authorities to compensate SME clients in relation to the sale of interest-rate derivatives. This case has been a major drag on cost when combining client compensation and provisioning for project costs (approximately €750 million in total). The remaining provisions for this case amounted to €100 million on June 30, 2019, including the additional provisions amounting to €44 million, which were created for project costs first-quarter 2019. Other legal cases for which the bank already made provisions are referenced in the annual report. On June 30, 2019, the total amount of legal provisions was €334 million.

Anti-financial crime and bank account monitoring is centered on the "duty of care" initiative. We view positively the refocus on onshore private banking operations, but similar to its peers, we monitor how the ABN AMRO manages the higher standards now imposed on compliance, conduct, and anti-money laundering. We note that, as part of the publication of the first-half 2019 results, the bank disclosed that the Dutch Central Bank had required it to review all of its existing retail clients as part of the fight against financial crimes like money laundering. The bank created an additional €114 million of provision for this review, on top of the €85 million allocated in fourth-quarter 2018, and is boosting the number of staff working on anti-financial crime issues. It is premature for us to say whether this review will reveal material deficiencies or not, and if so what the financial/reputational impact could be. The bank cannot exclude that the authorities could impose sanctions, including a fine. We will monitor closely the outcome of this review and more broadly those nonfinancial risks in upcoming quarters.

Table 5

ABN AMRO Bank N.V.--Risk Position							
	--Fiscal year ended Dec. 31--						
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	3.3	(1.5)	2.2	2.9	(1.1)	1.8	(2.0)
Total diversification adjustment/S&P Global Ratings RWA before diversification	N.A.	(5.0)	(5.2)	(4.9)	(12)	(10.0)	(13.0)
Total managed assets/adjusted common equity (x)	21.0	20.1	21.6	23.3	23.8	25.5	25.7
New loan loss provisions/average customer loans	0.2	0.2	(0.0)	0.0	0.2	0.4	0.4
Net charge-offs/average customer loans	0.2	0.4	0.3	0.3	0.3	0.5	0.6
Gross nonperforming assets/customer loans + other real estate owned	2.4	3.1	2.6	3.4	2.9	3.1	3.3
Loan loss reserves/gross nonperforming assets	33.0	27.0	34.6	40.2	57.0	57.1	57.9

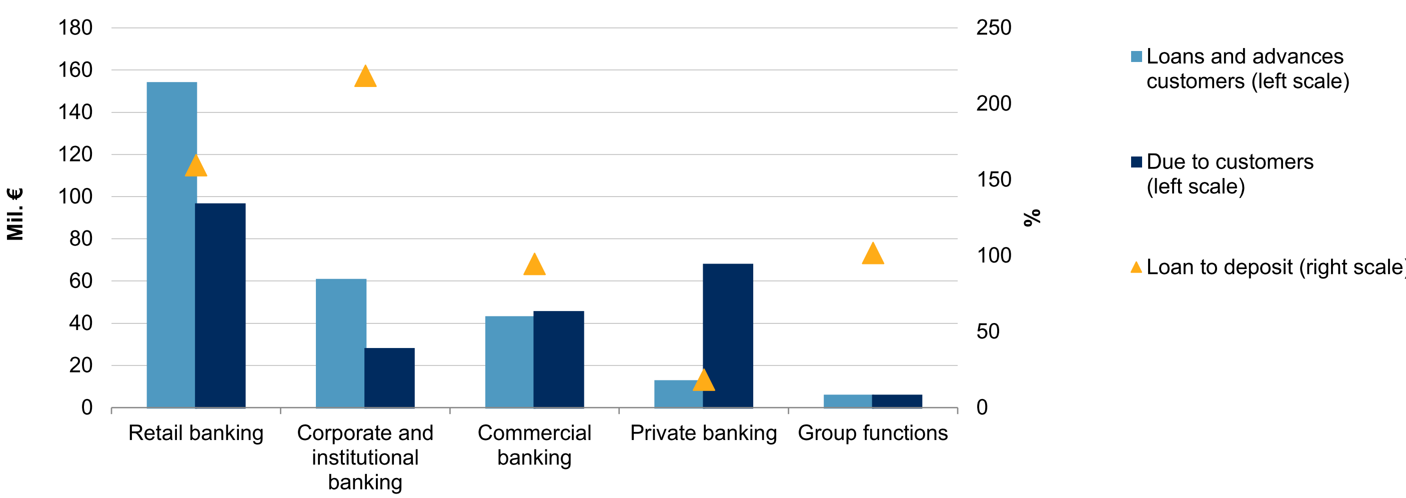
*First-half 2019 data. RWA--Risk weighted assets. N.A.--Not available. Source: S&P Global Ratings

Funding and liquidity: Broadly in line with the levels of major domestic peers

Our view of ABN AMRO's funding factors in the bank's large and stable customer deposit base, despite some reliance on wholesale funding. Its reported loan-to-deposit ratio was 113% on June 30, 2019, which was relatively stable compared with previous years. We note that the consolidated metric benefits from ABN AMRO's private banking franchise (€67.7 billion in deposits on June 30, 2019), while its retail banking division reports a much higher loan-to-deposit ratio of 160%. We acknowledge that this profile is typical in the Dutch market due to the large amount of mortgage debt outstanding, and because Dutch household savings are typically channeled into investments such as the mandatory and collective pension system and life insurance products.

Chart 5

ABN AMRO's Funding Gap By Business Units



Data at June 30, 2019. Sources: ABN AMRO's Interim Report, S&P Global Ratings.

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Over the next two years, we assume fairly limited credit growth of about 1.5% per year, but believe that granular customer deposits will exhibit stability, due to the bank's retail franchise, and the reliance on wholesale funding will not increase. Wholesale funding is diversified and the maturity profile is satisfactory. We calculate that ABN AMRO's stable funding ratio was a satisfactory 110.64% on June 30, 2019, in line with prior years, and we expect little change at end-2019.

The bank maintains a surplus of liquid assets well in excess of regulatory requirements. On June 30, 2019, it reported a liquidity buffer of €83.1 billion, which comfortably exceeds reported short-term wholesale funding. About 76.5% of the liquidity buffer comprises deposits at central banks and government bonds. The remainder mainly consists of other assets eligible for repo activity with central banks. Our measure of broad liquid assets to short-term wholesale funding was 2.05x on June 30, 2019. The fluctuation of liquidity metrics reflects the nature of the bank's clearing and commodity financing activities.

Table 6

ABN AMRO Bank N.V.--Funding And Liquidity

	--Fiscal year ended Dec. 31--						
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	67.9	67.9	67.0	65.9	67.2	64.5	62.3
Customer loans (net)/customer deposits	113.5	114.7	116.1	117.0	112.7	121.3	124.0
Long term funding ratio	88.3	89.4	88.6	86.9	89.5	87.0	83.8
Stable funding ratio	110.6	112.4	110.1	106.7	112.2	100.9	100.5
Short-term wholesale funding/funding base	12.4	11.3	12.1	13.8	11.0	13.6	16.9
Broad liquid assets/short-term wholesale funding (x)	2.0	2.2	2.0	1.7	2.2	1.3	1.2
Net broad liquid assets/short-term customer deposits	52.8	20.2	18.1	15.0	20.1	6.5	6.0
Short-term wholesale funding/total wholesale funding	37.9	34.5	36.0	40.1	33.3	38.3	44.9

*First-half 2019 data. Source: S&P Global Ratings.

Table 7

ABN AMRO--Summary Of ALAC Calculation As Of Dec. 31, 2018

		(Bil. €)	**% of S&P Global Ratings RWA**
A	Adjusted common equity	18,924.0	
B	Hybrids in TAC	2,008.0	
C (A+B)	Total adjusted common equity	20,932.0	11.6%
D	TAC in excess of our 10% thresold	2,848.0	1.6%
E	ALAC-eligible instruments	8,790.0	4.9%
	o/w Non-preferred senior	0.0	
	o/w Dated subordinated	9,394.0	
	o/w Minimal equity content hybrids	0.0	
	o/w Other	(604.0)	
F (=D+E)	ALAC buffer	11,637.0	6.4%
	S&P RWA	180,844.0	

ALAC--Additional loss-absorbing capacity. RWA--Risk weighted assets. TAC--Total adjusted capital. Source: S&P Global Ratings.

Support: The likely forthcoming issuance of senior nonpreferred debt will consolidate ALAC

In our view, ABN AMRO has high systemic importance in the Netherlands, mainly reflecting its material market share in retail deposits. We regard the prospect of extraordinary government support for Dutch banks as uncertain in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for notching uplift for possible future Dutch government support.

However, we view the Dutch resolution regime as effective, as we believe it contains a well-defined bail-in process under which the authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We calculate ABN AMRO's ALAC buffer represented 6.4% of S&P Global Ratings' RWAs at end-2018, of which excess TAC was 1.6%, and the remainder was subordinated debt instruments. We expect that ALAC will stand at about 6% of S&P Global Ratings' RWAs over 2019-2020 as ABN AMRO replaces callable Tier 2 instruments with either Tier 2 or, more likely, senior nonpreferred notes. We expect senior nonpreferred notes to be issued in 2019 at the earliest, but more likely in 2020. We believe that complying with a minimum of 5% of our measure of RWAs is not at risk for the coming years because future regulatory requirements appear likely to oblige ABN AMRO to increase the buffer of instruments that we expect will be ALAC-eligible.

Additional rating factors:None

No additional factors affect the rating.

Ratings on hybrid capital instruments

We rate ABN AMRO's undated deeply subordinated AT1 issued in 2015. Our 'BB+' issue rating stands four notches below the 'a-' SACP. This includes one notch for subordination, two notches for Tier 1 regulatory capital status, and one notch because the notes contain a contractual write-down clause.

Resolution counterparty ratings (RCRs)

We set the RCRs on ABN AMRO Bank one notch above our long-term ICR, reflecting the typical approach under our framework when the ICR ranges from 'BBB-' to 'A+'. The RCRs also reflect our jurisdiction assessment for the Netherlands. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Ratings On Various Dutch Banks Affirmed; Most Positive Outlooks Revised To Stable On Property Market Developments, June 28, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 24, 2019)*	
ABN AMRO Bank N.V.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Subordinated	BBB+

Ratings Detail (As Of September 24, 2019)*(cont.)	
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Issuer Credit Ratings History	
28-Jun-2019	A/Stable/A-1
15-Sep-2017	A/Positive/A-1
02-Dec-2015	A/Stable/A-1
Sovereign Rating	
Netherlands	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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