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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/Negative/A-1

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

Major Rating Factors

Strengths:	Weaknesses:
• Strong solvency and supportive capital policy to accommodate upcoming regulatory capital changes. • Leading competitive positions in domestic retail, corporate, and private banking. • The planned wind-down of several non-European wholesale activities, decided by new management, may improve the risk profile and reduce volatility of bottom-line earnings. • Digitally advanced business model.	• Pressure on retail revenues from the low interest rate environment. • Substantial investments needed in compliance, remediation of conduct issues, or digital upgrades will continue to weigh on efficiency metrics. • Elevated loan impairments in 2020, and to a lesser extent in 2021, will dampen short-term profitability prospects. • The clearing business remains exposed to low frequency, but high severity, events.

Outlook: Negative

The negative outlook on ABN AMRO Bank reflects S&P Global Ratings' view that the bank's earnings are under rising pressure due to heightened risks in its lending portfolio and other business areas sensitive to financial market volatility. Some of these risks are common to peers in Europe amid the COVID-19 pandemic, but others are more bank-specific, notably sizable exposures to cyclical corporate sectors and risk appetite in the clearing business.

Downside scenario

We would consider lowering the rating in the next 12 months if the recession triggered by the pandemic weakens the bank's asset quality for longer than we currently expect, for instance if loan impairments remain almost as elevated in 2021 compared with the historic highs we anticipate for 2020. Downward pressure could also arise from the emergence of any new conduct or reputational issues or if the investigation launched by the Dutch public prosecutor in September 2019 about alleged shortcomings in anti-money laundering procedures leads to a substantial fine that jeopardises the bank's currently strong capital position.

Upside scenario

We would revise the outlook back to stable if ABN AMRO manages to contain the rise in credit losses stemming from its exposure to cyclical corporate sectors, in particular if those credit losses substantially drop in 2021 compared with 2020 and revenues grow again. This would indicate that the crisis is short-lived and that COVID-related damage to the bank's financial profile is therefore only temporary and modest.

Rationale

Our 'a-' group SACP on Dutch bank ABN AMRO sits in the middle of the 'bbb+' to 'a' range that we apply to its peer group, which comprises diversified national champions operating in low-to-medium risk European banking markets, like the U.K., Sweden, Belgium, Denmark, or France. The difference between ABN AMRO and peers with higher group SACPs primarily reflects ABN AMRO's necessary refocus of its corporate and institutional (CIB) activities, especially the non-European ones, which have struggled to deliver the same risk-adjusted profitability as the rest of the group over recent years and are now under even more pressure, amid the COVID-19 pandemic.

We also note that ABN AMRO faces a wide range of nonfinancial risks, including those related to the investigation launched by the Dutch prosecutors in September 2019 on its anti-money laundering practices.

We revised the outlook to negative from stable in April 2020 as COVID-19 brought economic activity in ABN AMRO's core geographies to an abrupt slowdown and weakened its profitability (see ABN AMRO Bank N.V. Outlook Revised To Negative On Weaker Expected Earnings Amid COVID-19 Outbreak; Ratings Affirmed, published on April 9, 2020). We expect ABN AMRO will face elevated impairment charges and sustained margin pressure for the remainder of 2020, and likely part of 2021, but we think it will maintain a robust balance sheet profile. Its results for the first two quarters of 2020 included a high 134 basis point (bp) annualized credit loss charge, reflecting deteriorated macroeconomic assumptions and exposure to some cyclical corporate sectors hurt by the pandemic and the low oil/commodities prices.

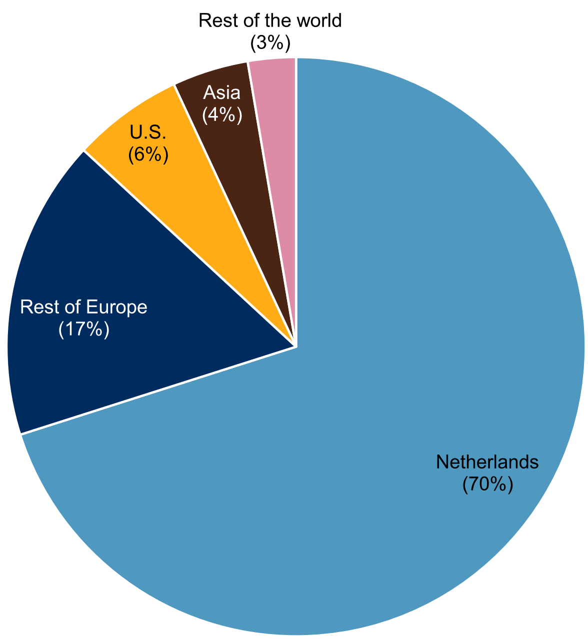
We adjust the 'a-' stand-alone credit profile upward by one notch, reflecting our view of ABN AMRO's sizable buffer of additional loss-absorbing capital (ALAC), to arrive at the 'A' issuer credit rating (ICR).

Anchor:Recent strategic decisions will reinforce the share of Dutch and Northwest European exposures, at the expense of overseas ones.

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 (see chart 1). Still, ABN AMRO predominantly operates in The Netherlands, and to a lesser extent in other Western European economies, a feature that the August 2020 strategic decisions will further reinforce.

Chart 1

Geographical Breakdown Of ABN AMRO's Credit Exposure



Data as of end June 2020. Source: ABN AMRO's pillar III report, S&P Global Ratings.

Our assessment of Dutch economic risk balances the wealthy, diversified, and competitive nature of the Dutch economy, which also translates into a wealthy sovereign able to support the real economy, against its sensitivity to international trade volatility, which the COVID-19 pandemic has radically amplified. Pre-existing concerns related to global trade tensions and Brexit remain. We expect The Netherlands to rebound in 2021 with a 3.8% GDP growth following a 5.2% recession in 2020. We continue to see downside risks, which will likely affect the credit quality of export-oriented corporates, small and midsize enterprises, or other cyclical sectors.

Private sector leverage in The Netherlands 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 strong house price inflation. Household indebtedness will reduce over time with the gradual move away from interest-only (non-amortizing) mortgages, but improvements have so far been hardly visible in absolute terms. Authorities in The Netherlands and across many other European countries have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. Still, we expect the COVID-related short-term shock to have a meaningful impact on banks' asset quality, revenues, profitability, and refinancing costs. On that basis, we consider that the trend for economic risk for banking activities in The Netherlands is negative.

Our assessment of industry risk for Dutch banks incorporates high domestic concentration and our view of a stable competitive environment. We consider that the prospective profitability of domestic banking activities is adequate, although the 2020 economic shock will likely have a meaningful negative effect. We observe relatively supportive price discipline in the competitive mortgage segment. Some of the large banks have completed major restructuring efforts, while cost optimization programs continue in the context of the persistently low interest rate environment. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support. We view the trend for industry risk as stable.

Table 1

ABN AMRO Bank N.V.--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	424,595.0	374,876.0	381,131.0	392,987.0	390,956.0
Customer loans (gross)	270,263.0	270,527.0	273,147.0	277,366.0	271,347.0
Adjusted common equity	19,682.0	20,143.0	18,924.0	18,189.6	16,942.4
Operating revenues	3,909.0	8,502.0	9,092.0	8,912.0	8,111.0
Noninterest expenses	2,499.0	5,268.0	5,351.0	5,476.0	5,642.0
Core earnings	(400.0)	1,967.4	2,325.0	2,534.2	1,731.7

H1--First-half. Source: Company financials, S&P Global Ratings.

Business position:Reshaping CIB to restore risk-adjusted profitability.

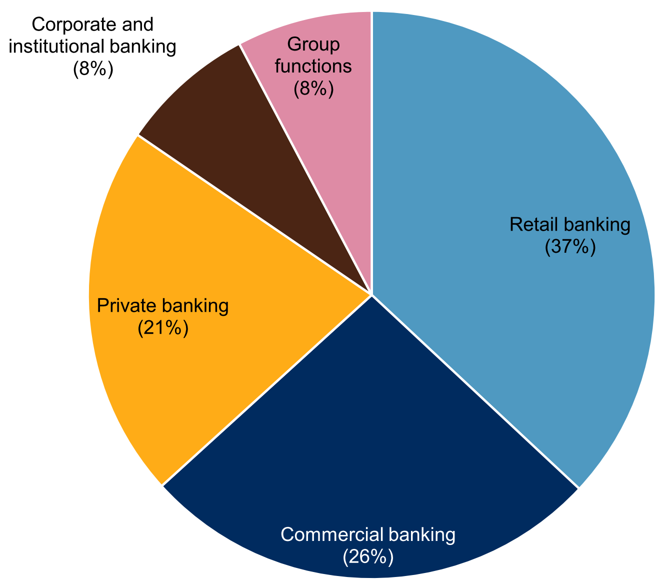
With assets exceeding €420 billion at half-year 2020, ABN AMRO is one of the 20 largest European banks. We principally compare ABN AMRO with other national champions in Western Europe, especially those with substantial corporate and SME businesses and fee-generating activities such as asset management or private banking. We see the bank's main peers as Dutch competitors ING and Rabobank, but also Natwest Group (the former Royal Bank of Scotland group) in the U.K., KBC in Belgium, Danske Bank in Denmark, Skandinviska Enskilda Banken (SEB) in Sweden, or Société Générale in France.

ABN AMRO is the third-largest bank in The Netherlands by asset size and operates a universal model. The bank claims to be the primary bank for 20% of the Dutch population. It enjoys large and sustainable domestic market shares across business lines. It is the second-largest domestic retail bank, with about 15% market shares in new mortgage lending at half-year 2020, and boasts even superior market shares, estimated to be about 25%-30%, in domestic lending to SMEs. The bank is also the leading private bank in The Netherlands, the third-largest in Germany, and fifth-largest in France, managing about €177 billion of client assets at mid-year 2020. 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 this neighboring country. We view positively the bank's refocus on onshore private banking in Northwestern Europe.

The retail, commercial, and private banking businesses deliver relatively stable and healthy returns, even if not immune from pressure. The performance of the corporate and institutional banking (CIB) division has been mixed, though, exhibiting lower and more volatile returns on equity (ROE) than other divisions. ABN is still a leading player in corporate banking in The Netherlands, with good and long-standing relationships with most corporates across the Benelux region. The bank is also involved in selected wholesale banking activities internationally, including financing to the energy, commodities, and logistics and transportation sectors, and clearing activity.

Chart 2

Breakdown Of ABN AMRO's Operating Revenues



Data as of end June 2020. Source: ABN AMRO's interim report, S&P Global Ratings.

For the group as a whole, first-quarter 2020 performance was weak and the second quarter, although better, was still loss-making. The performance of retail, commercial, and private banking, although good, has not been enough to offset losses at CIB. In April 2020, Mr. Robert Swaak was appointed CEO of the bank. When second-quarter results were disclosed in August 2020, Mr. Swaak announced some strategic inflexions, including the exit of some global CIB niches such as commodities trading.

These announcements came at a time when ABN AMRO, like its peers, faces a weak economic climate due to the COVID-19 pandemic, but also more durable and profound industry mutations. These include the energy transition, digitalization, the low-for-longer interest rate environment in the eurozone, and inflation in risk-weighted assets in many businesses in anticipation of the final Basel accord. To a certain extent, all these issues have forced banks to allocate resources primarily in businesses where they have leading positions and pricing power and where they could reasonably generate returns that cover their cost of capital. This was not the case for most of ABN AMRO's international wholesale activities, however.

The key objectives of reshaping the CIB are the following:

- The gradual exit from the global commodities trading business and from other selected international wholesale operations, such as transportation and logistics or natural resources. The aim of this is to accelerate natural run-down of the portfolio through loan disposals, subject to market conditions.
- According to the bank, these run-down exposures could represent more than €17 billion in loans, €14 billion in regulatory RWAs (12% of group's RWAs), and 80% of the bank's average annual impairments in the 2017-2019 period. Most of the portfolio to be run-down matures by end-2023.
- Consequently, the central hub for CIB activities will now be The Netherlands and Northwest Europe.
- The capital allocated to CIB will reduce by one third and the bank aims for a 10% RoE for its remaining CIB operations.
- The bank estimates the cost of this restructuring to be in the €280 million-€320 million range, to be booked in third quarter 2020.
- The clearing activity will remain global, but there is a commitment to strengthen risk management.

These decisions have a sound rationale, as they may reduce the bank's risk profile and rebalance its business model toward more stable business over time. We think that ABN AMRO lacks the scale to deliver sufficient risk-adjusted returns in the international wholesale banking segment, where the competition for the best clients is fierce. The typically low granularity of these portfolios makes the bank vulnerable to credit-event risks, which a period of stress exacerbates. In addition, we note that most of the business planned for a run-down is sensitive to energy transition risks, which we consider will be rising for banks in the coming years. This refocus on The Netherlands and Northwest Europe may slightly reduce the group's geographic diversity, but we did not view it as strength before anyway. At mid-year 2020, more than 70% of the exposures were already in The Netherlands and this may increase slightly over time.

We view favorably the bank's planned strengthening of its risk controls in the clearing business, which posted an unexpected €180 million loss in first-quarter 2020 amid intense market volatility. However, we still believe that clearing is a business where operational or market losses may be infrequent, but that they have a high severity impact when they materialize. ABN AMRO claims it is a top-three global bank player in derivatives clearing, a business that generated average RoE of 15% until first-quarter 2020. Still, we remain unconvinced about ABN AMRO's global franchise in this segment, and in particular its capacity to attract and work with the most creditworthy brokerage clients, notably in the competitive U.S. market.

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 107 from 469 between 2011 and 2019 as a result of the bank's "digital first" strategy and shift to video banking. We believe that ABN AMRO is well positioned in the digital race, which is necessary in a tech-advanced country like The Netherlands. As an example, 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.

The Dutch government still owns 56% of ABN AMRO and we consider that privatization remains the government's long-term objective. Still, current market conditions and the ABN AMRO's share price makes any reduction in the government stake, even a partial one, unlikely in the coming quarters. We consider the gradual return to the private sector to be neutral for the rating. Given that it already operates fully on commercial terms, this does not have a material effect on ABN AMRO's risk appetite or business strategy

Table 2

ABN AMRO Bank N.V.--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (Mil. €)	3,909.0	8,605.0	9,092.0	9,289.0	8,227.0
Commercial banking/total revenues from business line	44.3	42.7	44.2	37.9	34.6
Retail banking/total revenues from business line	38.6	38.6	38.7	43.0	48.1
Commercial and retail banking/total revenues from business line	82.9	81.3	82.8	80.9	82.7
Asset management/total revenues from business line	15.1	14.2	14.7	16.6	16.0
Other revenues/total revenues from business line	2.0	4.4	2.4	2.6	1.3
Return on average common equity	(4.2)	10.5	11.8	14.9	10.5

H1--First-half. Source: S&P Global Ratings, Company financials.

Capital and earnings:Capital is strong, but the earnings outlook is weak.

We see ABN AMRO's high capital ratios and conservative capital policy, especially in the context of the upcoming implementation of Basel IV rules, as a significant mitigant to the economic downturn and earnings pressures triggered by the COVID-19 pandemic.

Our base-case projection is that our risk-adjusted capital (RAC) ratio will be in the 11.3%-11.8% range through year-end 2021, above our 10% threshold for a strong assessment. In common with other Dutch and European banks, ABN AMRO cancelled its proposed 2019 final dividend following a request from the regulator, and deferred decisions on future dividends until year-end 2020. We assume in our RAC ratio projection that dividends will restart as soon as authorized and that ABN AMRO will then follow a similar cash distribution policy as before the COVID-19 pandemic, that is around 60%.

We note the CET1 ratio is high at 17.3% at mid-year 2020 under existing Basel III rules. Still, the pro forma effect of the upcoming Basel IV is material for ABN AMRO, like its Dutch peers. The fully loaded Basel IV ratio stood at 14% at the same date. This is substantially lower and means that--under the assumption of a static balance sheet--RWAs could increase by more than 20% in the next few years due solely to regulatory changes. We believe this increase is manageable though because of the long implementation timeframe, which the Basel committee further extended by one year with a phase-in period (for the output floor) starting from 2023. Most of the RWA add-ons will come from the Targeted Review of Internal Model (TRIM), other model reviews, and the risk-weight floor for mortgages.

In our view, this regulatory RWA inflation explains some of the bank's strategic decisions, including the desire to grow capital-light activities, such as private banking, but also to scale-down capital-intensive ones, like CIB. As part of the measures announced by the ECB to support provision of credit to the local economy, minimum capital requirement reduced to 9.6% at June 30, 2020, from 12.1% previously, in part due to the temporary lowering of the countercyclical buffer. We assume ABN AMRO will continue to operate with strong capital ratios, that is with a CET1 ratio in the low-end of its stated target range of 17.5%-18.5%.

The difference between our measure of capital and regulatory ratios generally 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 non-eligibility, and other risks associated with the NHG scheme.

We note the leverage ratio at June 30, 2020 stood at 4.3%. This is relatively low when compared with peers, but the amendment of treatment of clearing guarantees in 2021 should boost the ratio by 50 basis points, at 4.8%, on a pro-forma basis.

The bank posted losses in the first and second quarters of 2020, leading to an approximate €400 million loss in the first half of the year, as opposed to a €1.5 billion profit in the same period in 2019. We expect a moderate statutory loss in 2020 and a net profit of about €1.5 billion in 2021, by our estimates, which remains well below the €2 billion posted in 2019. The above-mentioned 2020 and 2021 forecasts exclude any potential one-off fine from Dutch authorities for the customer due diligence case. The decline in profitability in 2020 is primarily due to a sharp COVID-19-related increase in impairment charges. We expect loan impairments to be exceptionally elevated at about 110 bps in 2020 (24 bps in 2019), or close to €3 billion, and moderating only gradually after (expected €1.4 billion, or 50 bps in 2021). We recognize that some negative credit events that unexpectedly dented the results, such as the clearing loss in the first quarter or the provisions created for an ad-hoc fraud case in Germany in the second, are unlikely to repeat during the rest of the year.

Beyond the negative impact of rising impairments, we expect the following trends:

- A continued erosion in net interest margins in 2020 and 2021. Despite good pricing discipline in the domestic mortgage market and proactive initiatives to limit pressure on deposit margins, such as charging negative interest rates to clients with deposits above €2.5 million, the bank continues to suffer from the low interest rate environment. In addition, we anticipate a slight reduction of higher-risk and higher-margin CIB lending activities and expect some pressure in 2020 on certain fees, notably those from asset-gathering activities. We estimate 2020 operating revenues could be 6% lower than in 2019, rebounding only moderately in 2021.

- We assume that 2020-2021 operating expenses will decrease slightly in absolute terms, to about €5 billion by 2021 (from €5.3 billion in 2019 and €5.5 billion in 2017). Still, we expect cost-reduction initiatives to run the bank will be largely offset by investments needed to continue the digitalization of the banking operations, as well as compliance-related investments (including those related to the customer due diligence remediation program). Therefore, the cost-to-income ratio should exceed 63% in 2020, and remain above 60% in 2021.
- The reshaping of the CIB business will generate an additional €280 million-€320 million restructuring costs and tax asset write-offs, as guided by management, in the third quarter.

Under IFRS9, banks book loan impairments to cover existing and future losses. They calculate those impairments using several macroeconomic scenarios and simulating potential losses based on their exposures. Those assumptions differ from one institution to another, making point in time comparisons of loan impairments, and profitability, a difficult exercise. We also recognize that our own estimate of impairments assumes a substantial economic rebound in 2021 in both The Netherlands and the eurozone. If the economic recovery starts to slow in the third and fourth quarters, we cannot rule out an upward revision of those impairments, and therefore our profitability forecasts, as for peers'.

Table 3

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

	--Fiscal year ended Dec. 31--				
(%)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	19.9	19.9	19.3	18.5	17.9
S&P Global Ratings RAC ratio before diversification	N/A	12.3	11.6	11.2	9.2
S&P Global Ratings RAC ratio after diversification	N/A	12.8	12.2	11.8	9.7
Adjusted common equity/total adjusted capital	86.9	91.0	90.4	90.1	94.5
Net interest income/operating revenues	77.8	76.1	72.5	72.4	77.3
Fee income/operating revenues	20.8	19.2	18.7	19.6	21.5
Market-sensitive income/operating revenues	1.0	3.3	6.4	5.7	(2.0)
Noninterest expenses/operating revenues	63.9	62.0	58.9	61.4	69.6
Preprovision operating income/average assets	0.7	0.9	1.0	0.9	0.6
Core earnings/average managed assets	(0.2)	0.5	0.6	0.6	0.4

H1--First-half. RAC--Risk-adjusted capital. N/A--Not applicable. Source: S&P Global Ratings, Company financials.

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 and central banks	71,391.4	925.0	1.3	1,580.0	2.2
Institutions and CCPs	23,139.0	3,500.0	15.1	4,683.6	20.2
Corporate	120,436.0	44,813.8	37.2	91,455.6	75.9
Retail	176,435.6	18,737.5	10.6	49,695.1	28.2
Of which mortgage	163,450.6	13,962.5	8.5	39,093.5	23.9
Securitization§	258.1	37.5	14.5	51.6	20.0
Other assets†	2,229.0	15,987.5	717.2	4,183.9	187.7

Table 4

ABN AMRO Bank N.V.--Risk-Adjusted Capital Framework Data (cont.)					
Total credit risk	393,889.1	84,001.3	21.3	151,649.8	38.5
Credit valuation adjustment					
Total credit valuation adjustment	--	370.4	--	--	--
Market risk					
Equity in the banking book	1,010.0	3,675.0	363.9	8,736.2	865.0
Trading book market risk	--	2,387.5	--	3,326.3	--
Total market risk	--	6,062.5	--	12,062.4	--
Operational risk					
Total operational risk	--	19,391.2	--	16,372.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	109,825.3	--	180,084.4	100.0
Total diversification/ concentration adjustments	--	--	--	(7,100.8)	(3.9)
RWA after diversification	--	109,825.3	--	172,983.7	96.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		21,895.0	19.9	22,130.0	12.3
Capital ratio after adjustments‡		21,895.0	19.9	22,130.0	12.8

*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). CCP--Calling party pays. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2019, S&P Global Ratings.

Risk position:Exposure to cyclical corporate sectors is the main source of credit risk.

Our risk analysis acknowledges the very good performance of the domestic mortgage book, but considers the cyclical pockets of risk in the corporate book and the market/operational risks in the clearing activities. We also recognize ABN AMRO's exposure to substantial nonfinancial risks, notably those related to conduct or compliance.

The loan portfolio is more than 70% focused on The Netherlands and dominated by domestic mortgages (55% of the loan book), which we continue to see as low risk. We see the quality of ABN AMRO's mortgage book as good and in line with the market average. This reflects our view that the cost of risk will remain low in this segment, at about 10 basis points (bps) in the next few years, despite an expected mild correction in house prices in 2020, and 2021 in particular, in The Netherlands. We also note the following:

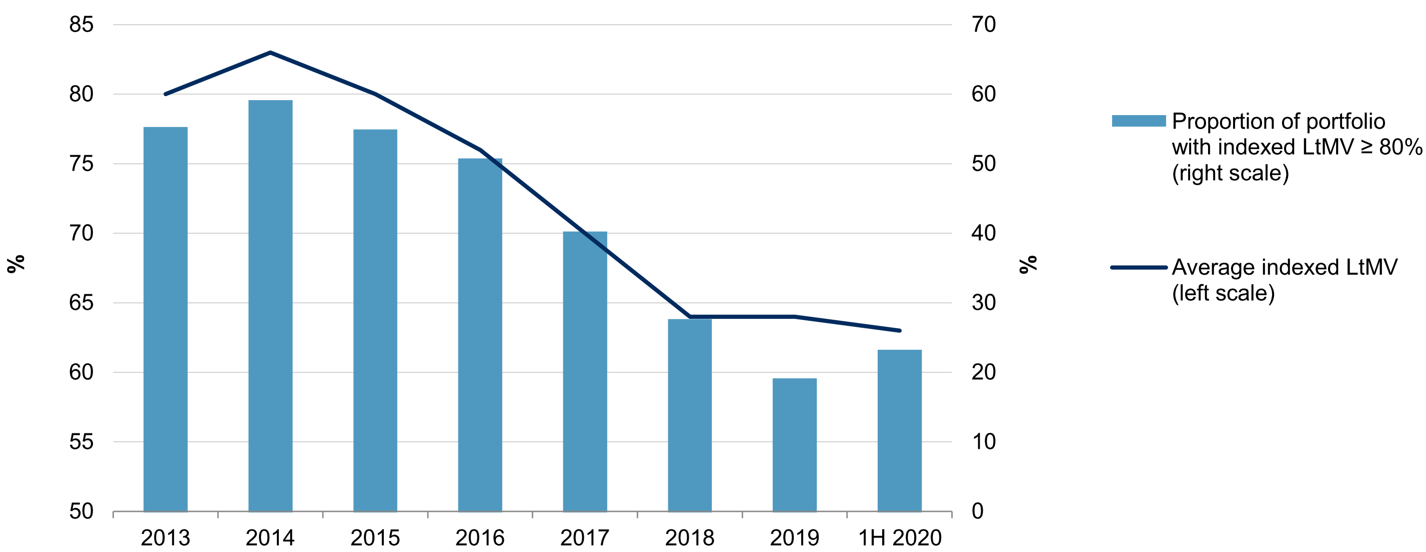
- About 25% of mortgage loans are guaranteed by NHG;
- The share of full and partial interest-only loans is reducing year on year, now at 16% and 30% respectively;
- About 90% of mortgages have fixed interest rates;
- The average loan to market value (LtMV) is 63% (61% when excluding NHG loans), and only 1.1% of mortgages

have a LtMV exceeding 100%; and

- The originating bank has full recourse to the borrower.

Chart 3

Improved Quality Of Mortgage Portfolio



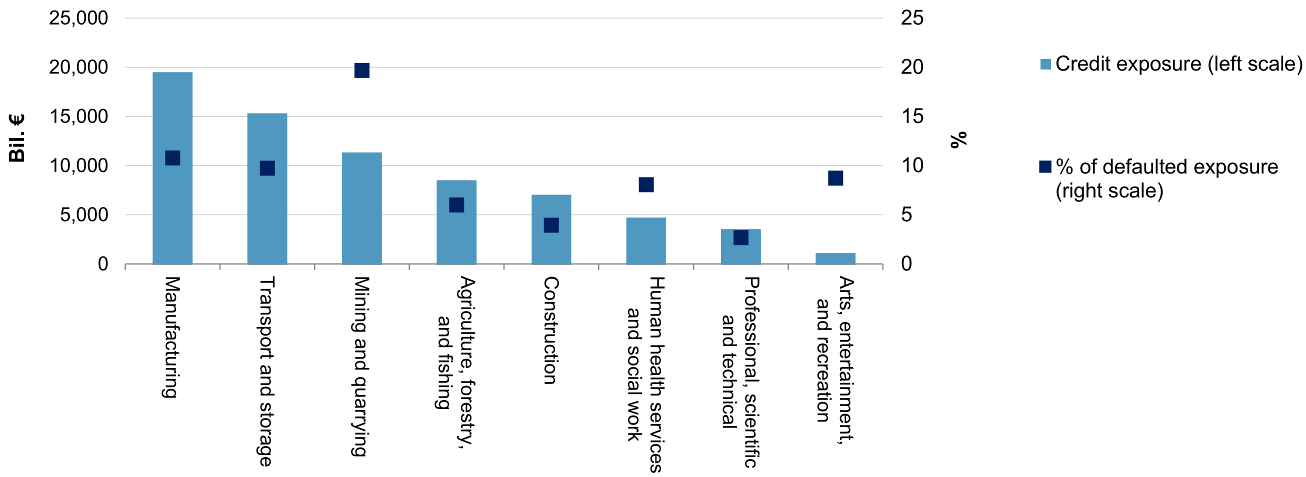
LtMV--Loan to market value. 1H--First-half. Source: ABN AMRO.

The corporate and SMEs portfolio (together about €97 billion) features some sector and individual concentrations, and hosts about 80% of the bank's stage 3 loans at June 30, 2020. We believe that the main source of credit risk comes from a number of wholesale cyclical sectors, such as natural resources (energy sector, including offshore), global transportation and logistics (including shipping), and trade and commodity finance (including diamonds). Although they represent a manageable proportion of ABN AMRO's corporate portfolio, they are likely to experience an elevated default rate.

The commercial real estate (CRE) book presents some risks, in our view, especially in a post-COVID-19 world, where behavior toward, and appetite for, these type of assets may change. We estimate that CRE represents about 10% of corporates' exposures, but slightly more than 50% of TAC. We believe the quality of CRE book is adequate, with only 10% of exposures with a LtMV exceeding 80% at mid-year 2020, and more than 90% of the book is secured. Still, the bank itself publicly highlights the risk of a decline in market values, stating a significant risk of decline of between -4% and -24%. Exposure to retail and office assets, segments that we think may suffer the most, represent only 30% of the total CRE book, which is skewed overall toward less risky residential assets.

Chart 4

Credit Risk Metrics For ABN AMRO's Selected Sector Exposures



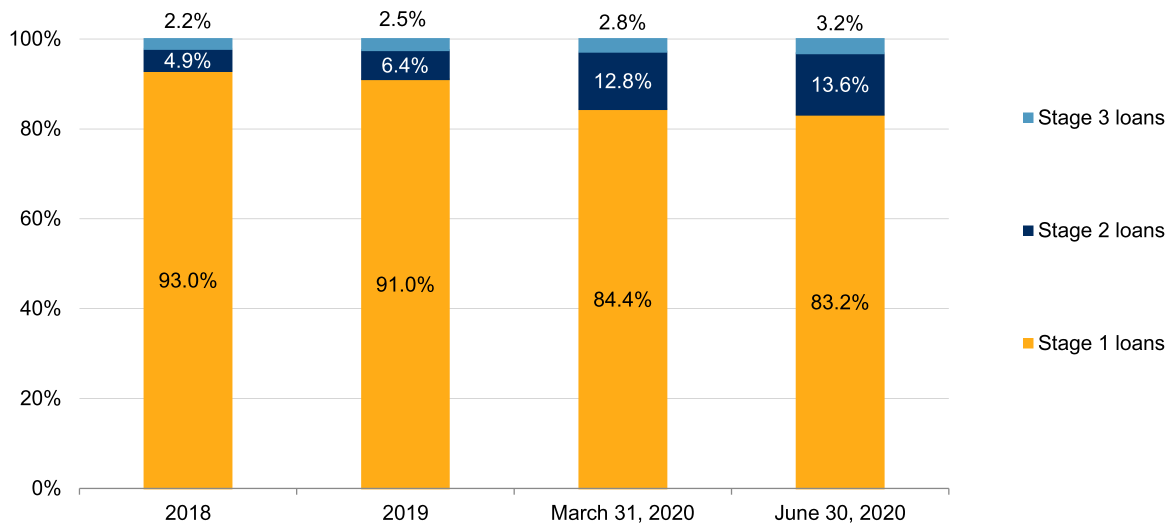
Data as of June 30, 2020. Sources: ABN AMRO's pillar III report, S&P Global Ratings.

ABN AMRO's reported loan loss rate soared to an annualized 134 bps in the first half of 2020, primarily due to the inclusion of weaker macroeconomic assumptions in the IFRS 9 impairment calculation. Most of the impairments are in the CIB business, including a one-off case linked to a fraud in Germany, and also include an overlay reflecting the probability of a sustained period of low oil prices. ABN AMRO's economic assumptions appear reasonably conservative compared with European peers' and we think the large first-semester charge represents a significant head start in recognizing losses likely to emerge through the current recession. We therefore project ABN AMRO's reported loan loss rate at about 110 bps for full-year 2020. This forecast is in line with management's guidance of impairments of €3 billion. We expect a gradual normalization of the level of impairments in 2021, with a forecasted loss rate of 50 bps, which would still be 2x more than the pre-COVID-19 level.

Stage 3 loans accounted for 3.2% of the total portfolio on June 30, 2020, while stage 2 loans made up 13.5% on June 30, 2020 (see chart 5). We note the coverage of stage 3 loans stood at 34.3% at mid-year 2020. Although this compares well compared with domestic competitors ING and Rabobank, it is just in line with most European peers and weaker than most U.K. banks. This is why we assume that the impairment charge at ABN AMRO will remain substantial in the second half of 2020, and early 2021, at least to increase provision coverage for each stage.

Chart 5

Stage 3 Loans Are Set To Increase Again In 2020 And 2021, So Do Loan Impairments



Source: ABN AMRO's interim report, S&P Global Ratings.

We view positively the new CEO's announced plans to strengthen risk controls in the clearing business after the unexpected €180 million loss posted in the first quarter amid market volatility. Losses at ABN AMRO Clearing have historically been marginal over the past few years, which shows that this business is a low frequency, but high severity one when it comes to market or operational losses.

We understand that a U.S. brokerage client with a strategy that involves trading on U.S. options and futures failed to meet risk and margin requirements, amid market volatility in the second half of March 2020. This highlights the risk that ABN AMRO Clearing faces when it selects its brokerage counterparties, as the credit quality of those counterparties may be uneven. This is particularly the case in the U.S where ABN AMRO Clearing may have a second-tier franchise compared with larger local banks and clearers. Even if we view this case as a credit event caused by market volatility, we note that the clearing business is also structurally exposed to basis risk, that is the risk arising from imperfect hedges on a given position. The bank has so far adequately managed this risk in our opinion.

In September 2019, ABN AMRO announced that the Dutch public prosecutor had launched an investigation under the Dutch act on the prevention of money laundering and terrorism. The investigation relates to ABN AMRO's compliance with the Act and focuses on the completeness of client files, timely reporting of unusual transactions, and timely discontinuation of client relationships, when necessary. We understand that the scope of this investigation differs from other cases that have emerged in Europe since 2019. Since that time, ABN AMRO has started a vast remediation program, involving 3,000 full time equivalent employees, with substantial new investments in compliance or anti-money-laundering procedures, controls, and resources. At June 30, 2020, legal provisions amounted to €169 million. Although the investigation is pending, we cannot rule out a fine at some stage, which, if it occurs, may well exceed the amount of provisions already created for legal matters.

Table 5

ABN AMRO Bank N.V.--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	(0.2)	(1.0)	(1.5)	2.2	2.9
Total diversification adjustment/S&P Global Ratings RWA before diversification	N/A	(3.9)	(5.0)	(5.2)	(4.9)
Total managed assets/adjusted common equity (x)	21.6	18.6	20.1	21.6	23.3
New loan loss provisions/average customer loans	1.3	0.2	0.2	(0.0)	0.0
Net charge-offs/average customer loans	0.4	0.2	0.4	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	4.3	3.6	3.1	3.9	3.4
Loan loss reserves/gross nonperforming assets	31.0	25.1	26.4	22.8	40.2

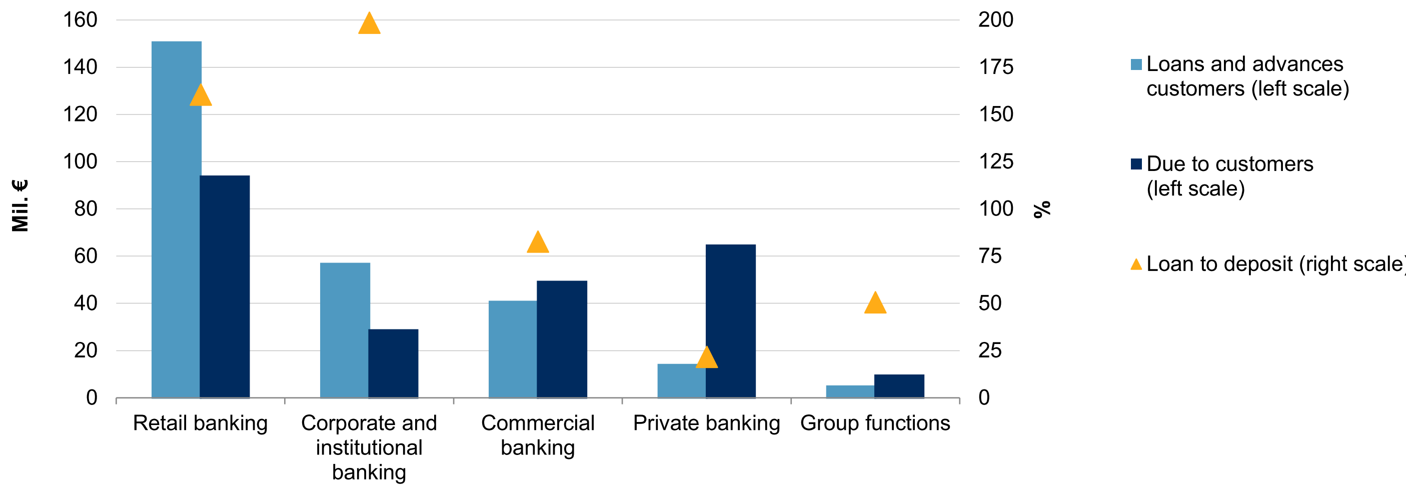
H1--First-half. RWA--Risk weighted assets. N/A--Not applicable. Source: S&P Global Ratings, Company financials.

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

ABN AMRO's funding profile benefits from a large, granular, and stable customer deposit base, though funding gaps in some segments imply some reliance on wholesale funding. Its reported loan-to-deposit ratio was 109% on June 30, 2020, down from 115% at year-end 2019. Like many banks, ABN AMRO benefited from an inflow of deposits during the first half of the year, since households and corporates reduced their spending and investments. Over time, we expect the loan-to-deposit ratio to return to about 115%. We note that the consolidated metrics benefit from ABN AMRO's strong private banking franchise (€64.5 billion in deposits on June 30, 2020 and marginal lending activity), 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 6

ABN AMRO's Funding Gap By Business Units



Data as of June 30, 2020. Sources: ABN AMRO's interim report, S&P Global Ratings.

Wholesale funding is diversified and the maturity profile is satisfactory. We calculate that ABN AMRO's stable funding ratio was a satisfactory 116% on June 30, 2020. Reliance on short-term wholesale funding is modest at about 15% of the total funding base. We note that ABN AMRO borrowed €32 billion from the European Central Bank as part of the TLTRO III (€32 billion) to support clients' potential liquidity needs, lengthen maturities, and repay early the €8 billion of funds from the previous TLTRO II. We view this as an opportunistic move, given the extremely favorable pricing conditions.

Like peers, market volatility in the first quarter of 2020 tested ABN AMRO's liquidity profile, though it has remained resilient to this stress. The bank maintains a surplus of liquid assets well in excess of regulatory requirements. On June 30, 2020, it reported a liquidity buffer of €107.6 billion, which covers the wholesale debt maturing in the next 12 months more than 4x. Most of the liquidity buffers comprise deposits at central banks and government bonds. The remainder mainly consists of other assets eligible for repo (repurchase agreement) activity with central banks. Our measure of broad liquid assets to short-term wholesale funding was 1.84x on June 30, 2020. The fluctuation of point in time liquidity metrics could reflect 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--				
(%)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	63.3	68.7	67.9	67.0	65.9
Customer loans (net)/customer deposits	108.5	114.1	114.7	116.1	117.0
Long term funding ratio	83.2	88.6	89.4	88.6	86.9
Stable funding ratio	116.0	110.1	112.4	110.1	106.7

Table 6

ABN AMRO Bank N.V.--Funding And Liquidity (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	**H1 2020**	**2019**	**2018**	**2017**	**2016**
Short-term wholesale funding/funding base	17.7	12.2	11.3	12.1	13.8
Broad liquid assets/short-term wholesale funding (x)	1.8	1.9	2.2	2.0	1.7
Net broad liquid assets/short-term customer deposits	55.7	17.1	20.2	18.1	15.0
Short-term wholesale funding/total wholesale funding	47.2	38.1	34.5	36.0	40.1

H1--First-half. Source: S&P Global Ratings, Company financials.

Table 7

ABN AMRO--Summary Of ALAC Calculation As Of Dec. 31, 2019		
	(Bil. €)	**% of S&P Global Ratings RWA**
Adjusted common equity	20,143.0	--
Hybrids in TAC	12,987.0	--
Total adjusted common equity	22,130.0	12.3%
TAC in excess of our 10% thresold	4,121.6	2.3%
ALAC-eligible instruments	6,713.4	3.7%
o/w non-preferred senior	--	--
o/w dated subordinated	7,028.0	--
o/w minimal equity content hybrids	--	--
o/w other	(314.6)	--
ALAC buffer	10,835.0	6.0%
S&P RWA	180,084.0	--

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

Support: The issuance of senior nonpreferred debt consolidates 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 6.0% of S&P Global Ratings' RWAs at end-2019, of which excess TAC was 2.3%, and the remainder was subordinated debt instruments. We expect that ALAC will stand at about 6.5% of S&P Global Ratings' RWAs over 2020-2021 as it replaces callable Tier 2 instruments with senior nonpreferred notes. ABN AMRO issued its first two senior nonpreferred notes (of €1 billion each) in early 2020. We believe that complying with a minimum of 5% of our measure of RWAs is not at risk in the coming years because ABN AMRO will likely need to increase the buffer of instruments that we expect will be ALAC-eligible owing to future regulatory requirements.

Additional rating factors:None.

No additional factors affect the rating.

Environmental, social, and governance (ESG)

We consider ESG risks/opportunities for ABN AMRO to be broadly in line with those of domestic and industry peers.

We see the bank's announced exit from trading and commodities finance globally and the non-European part of the transportation, logistics, and natural resources lending books as a fundamental strategic decision. Most of these businesses already had low risk-adjusted profitability. However, we consider that energy transition risks will inevitably increase going forward. We note that most of the CIB business that will be placed in run down has a high carbon footprint. Still, ABN AMRO continues to operate those businesses in Europe, where the need to support clients in their energy transition remains.

The investigation initiated by the Dutch public prosecutor shows that regulators are increasingly demanding in relation to banks' compliance and "know your customers" framework, especially in The Netherlands. Like their U.K. counterparts, Dutch banks will see an increasing focus on customer protection (in the retail segment) from the regulator and authorities. Our base-case scenario assumes that any financial penalty for the above-mentioned case would be manageable given ABN AMRO's strong capital base. However, any recurrence of these conduct issues could indicate weaknesses in governance and risk controls, creating reputational risks for the franchise and ultimately exerting downward pressure on the ratings.

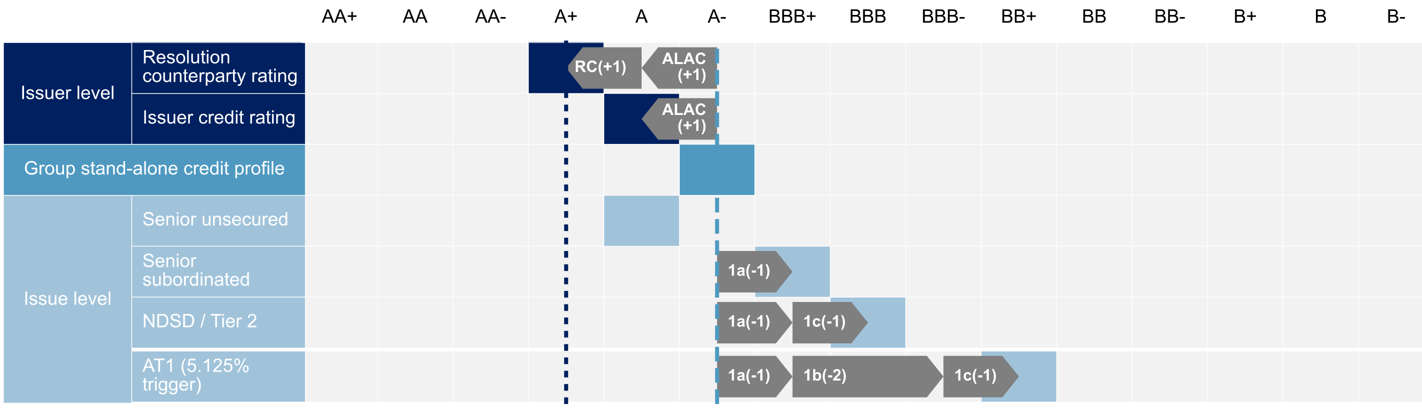
Resolution counterparty ratings (RCRs)

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.

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.

ABN AMRO Bank N.V:Notching



Key to notching

- - - - - Group stand-alone credit profile
- - - - - - Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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 October 2, 2020)*

ABN AMRO Bank N.V.	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Junior Subordinated	BB+
Junior Subordinated	BBB-

Ratings Detail (As Of October 2, 2020)*(cont.)	
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Issuer Credit Ratings History	
09-Apr-2020	A/Negative/A-1
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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com