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ABN AMRO Bank N.V.

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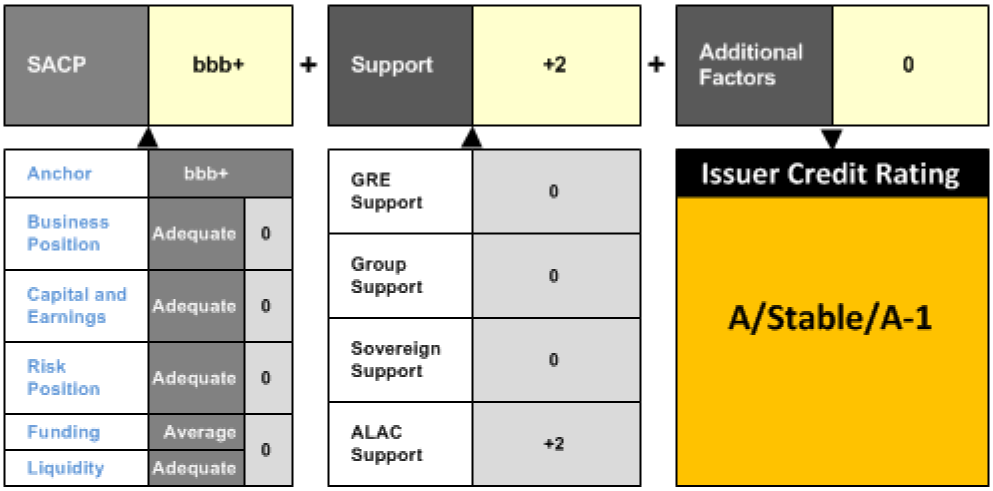
Table Of Contents

ABN AMRO Bank N.V.



ALAC--Additional loss-absorbing capacity.

Major Rating Factors

Counterparty Credit Rating
A/Stable/A-1

Strengths:	Weaknesses:
• Good domestic market position. • Adequate credit and market risk profile given the predominant focus on domestic retail and commercial banking.	• Less business and geographic diversification than larger universal banks. • Weaker efficiency measures than some higher-rated international peers, though we observe an improving trend.

Outlook

The stable outlook reflects our expectation that ABN AMRO will continue to build its additional loss-absorbing capacity (ALAC) by our measures. We assume that its ratio of ALAC to Standard & Poor's risk-weighted assets (RWAs) will likely exceed our 8% threshold during 2016, and will remain above this level thereafter.

A ratings upgrade over the next 18-24 months would require a significant improvement in ABN AMRO's credit profile. This is because we consider the most likely credit improvement will arise from its capital and earnings assessment. If we believe that ABN AMRO's risk-adjusted capital (RAC) ratio will improve above our 10% threshold for a "strong" assessment, and we expect it to remain above this level, we would likely compensate for this by reducing the number of ALAC support notches by one. However, an improved capital and earnings assessment would lead us to revise up the unsupported group credit profile (GCP), from which we derive our hybrid ratings.

At this time we consider a ratings downgrade as a relatively remote scenario as we assume that ABN AMRO will continue to build capital, by our measures, and we observe a reasonably benign outlook for its business growth and credit risk.

Rationale

The starting point for our ratings on ABN AMRO is its 'bbb+' anchor, which is primarily based on our view of the banking system in its home market of The Netherlands. We then adjust for the following bank-specific factors:

- An "adequate" business position, due to the dominance of relatively stable activities in its business mix.
- An "adequate" capital and earnings assessment, primarily driven by our projection of a RAC ratio in the 9.5%-10.0% range by end-2017.
- An "adequate" risk position, reflecting our assessment of the bank's risk management and exposures being broadly in line with its main domestic peers.
- "Average" funding and "adequate" liquidity, given its manageable funding requirements and modest credit growth.

Finally, we adjust the resulting 'bbb+' stand-alone credit profile upward by two notches, reflecting our view of ABN AMRO's ALAC buffer, to arrive at the 'A' issuer credit rating, or supported group credit profile.

Anchor: 'bbb+'

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 (80% to The Netherlands, 10% to 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. We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive, as seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and a long track record of prudent and flexible macroeconomic policies. Following real GDP growth of 1% in 2014, we believe that The Netherlands' real GDP will accelerate by just under 2% annually during 2015-2018. This is based on the recovery in domestic demand, as private consumption will benefit from rising disposable income and solid labor market performance, and also stronger investment activity starting from this year. These economic growth drivers are only partly offset by the government's decision to further limit natural gas production, which will have a negative impact on exports, risks emanating from the slowdown in emerging markets and the possible effects on The Netherlands' main trading partners in the eurozone. We anticipate that after several years of adjustment, the housing market will gradually recover on the back of higher disposable income and benign financial conditions. Still, we observe that this gradual turnaround is uneven across the country and that vacancy rates in the commercial real estate sector remain high. In the office subsector, for example, vacancies are at 15%-20%.

Our assessment of industry risk for Dutch banks incorporates strong domestic concentration and our view that the competitive environment is stable. We consider that the prospective profitability of domestic banking activities is adequate. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save using life insurance and pension products, rather than bank deposits. Ongoing Dutch banking sector deleveraging continues to reduce the external debt of its financial sector. We consider that Dutch systemwide funding profile benefits from factors including the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support.

Table 1

ABN AMRO Bank N.V. Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	410,677	384,159	369,656	392,011	402,346
Customer loans (gross)	266,266	266,669	262,003	267,300	261,079
Adjusted common equity	16,135	15,150	14,481	13,664	12,356
Operating revenues	6,404	8,055	7,324	7,338	7,794
Noninterest expenses	3,700	4,788	4,722	4,430	4,838
Core earnings	1,653	1,554	1,208	1,352	1,104

*Data as of Sept. 30.

Business position: A leading local player, but fewer strong characteristics than the two larger Dutch banks

Our assessment of ABN AMRO's business position as "adequate" reflects the dominance of relatively stable activities in its business mix of domestic retail and commercial banking activities, and private banking, supported by sound market positions. ABN AMRO is the third-largest bank in The Netherlands, with a balance sheet mostly generated by its Dutch activities. It states that is has a market share of new mortgage lending of about 22%-23% and a savings market share of about 21%. We understand that the bank ranks second in lending to small and midsized enterprises in The Netherlands and first in domestic private banking. It is also a leading player in Dutch corporate banking.

Key domestic peers are Rabobank Nederland and ING Bank N.V. We consider that Rabobank Nederland has a stronger business position in the Dutch market and that ING has greater geographic diversity than ABN AMRO. A broader international peer group includes commercial banks in developed markets with large domestic market shares but a credit profile similar to their industry average. Examples include BPCE, Danske Bank, KBC Bank, Société Générale, The Royal Bank of Scotland, and Santander UK, among others.

We consider that ABN AMRO has less business and geographic diversification than many universal banks with similar industry risk. However, we do note that ABN AMRO benefits from the size and good franchise of its private banking activities, with divisional client assets of €191 billion as of Sept. 30, 2015 (48% in The Netherlands), supported by a net inflow of €1.9 billion year-to-date. It is also involved in niche corporate banking, operated internationally. Two main areas of focus are financing to the energy, commodities, and transportation sectors, and clearing activity. ABN AMRO Clearing covers over 85 of the world's leading exchanges through 11 locations.

We view ABN AMRO's strategy as sound and conservative. We judge that it focuses on preserving its risk profile and reducing operating costs while strengthening its franchise in the Dutch banking sector. In September 2015, the bank refreshed its financial targets ahead of its IPO. Current targets are:

- A fully loaded Common Equity Tier 1 ratio of 11.5%-13.5%;
- A cost/income ratio of 56%-60% by 2017;
- Return on equity of 10%-13% in the coming years; and
- A dividend payout ratio of 50% over 2017.

We see these targets as achievable in the context of the improving Dutch economy (Standard & Poor's base-case assumption is a 2.2% rise in Dutch real GDP in 2016), and the bank's emergence out of government ownership. On Nov. 20, 2015, ABN AMRO became a listed company following the completion of an IPO, which reduced the government's ownership to about 80% (or 77% following the possible exercise of the over-allotment option) from 100%. We don't believe that the gradual return to the private sector will have a material impact on the bank's risk appetite or business strategy.

Table 2

ABN AMRO Bank N.V. Business Position					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Total revenues from business line (currency in millions)	6,404	8,055	7,324	7,338	7,794
Commercial banking/total revenues from business line	37.2	35.2	23.0	21.6	21.5
Retail banking/total revenues from business line	45.5	48.9	46.9	42.3	41.2
Commercial & retail banking/total revenues from business line	82.7	84.2	69.9	63.9	62.7
Corporate finance/total revenues from business line	N.A.	N.A.	15.8	19.9	17.1
Asset management/total revenues from business line	15.5	14.8	16.2	15.2	16.7
Other revenues/total revenues from business line	1.8	1.0	(1.9)	1.0	3.5
Investment banking/total revenues from business line	N.A.	N.A.	15.8	19.9	17.1
Return on equity	14.2	8.0	8.5	7.5	5.7

*Data as of Sept. 30. N.A.--Not available.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Improving metrics due to hybrid issuance and stronger earnings

We view ABN AMRO's capital and earnings as "adequate" and we project its RAC ratio will improve to 9.5%-10.0% by end-2017. We had previously assumed 8.0%-8.5% by end-2016. The improved view principally reflects the inclusion of a €1 billion Additional Tier 1 hybrid instrument (AT1; issued by ABN AMRO in September 2015, which we classify as "intermediate equity" and include within our RAC calculation) and a less cautious outlook on loan impairment charges.

We calculate that ABN AMRO's year-end 2014 RAC ratio was 8.5% (see table 5) and we expect a ratio in excess of 9% by year-end 2015.

Key elements of our base-case RAC projection include:

- 2017 preprovision income in 2017 to be about 2% higher than the €3.3 billion achieved in 2014, by our calculations. We factor in broadly stable net interest margins and low-single-digit growth in noninterest income. We assume that 2017 operating expenses will be about 6% higher than the €4.8 billion achieved in 2014, by our measures (including the bank tax and other regulatory contributions), as we assume that the bank will continue to invest in its digital capability.
- The loan impairment charge to average 25 basis points through 2015-2017.
- Standard & Poor's RWAs to rise by about 2% in both 2015 and 2016 and by 3% in 2017.
- A dividend payout in line with ABN AMRO's public statements.

Our forecast does not factor in further AT1 issuance.

We note that ABN AMRO's current regulatory capitalization compares quite well with peers. The bank reported a fully loaded CET1 ratio of 14.8% at Sept. 30, 2015, up from 14.0% at June 30, 2015. As we indicated in our analysis of its AT1 issue (see "ABN AMRO Bank Proposed Undated Deeply Subordinated AT1 Fixed Rate Resettable Callable Capital Securities Rated 'BB'," published on Sept. 10, 2015) we assumed that this metric will improve and remain above 14% over the next two years. Nevertheless, by our measures, we consider that ABN AMRO's capitalization is not as strong as its current CET1 ratio implies. This primarily reflects the more-conservative standardized risk-weighting that we apply. We also note that ABN AMRO's reported leverage ratio, 3.5% at Sept. 30, 2015 is lower than several peers.

In the first nine months of 2015, ABN AMRO reported a statutory profit before tax of €2,322 million, up significantly from €978 million in the same period in 2014. Earnings in 2014 were hampered by a €201 million Dutch government levy for the banking sector related to the 2013 nationalization of SNS REAAL. More significantly, reported impairment charges reduced in the first nine months of 2015 to €381 million from €990 million as ABN AMRO's operating environment improved.

We forecast that our measure of ABN AMRO's core earnings (which strips out exceptional items) will be around 23% of revenues in each year from 2015-2017, which compares well with peers. That said, its efficiency measures are not the strongest. We assume that its ratio of noninterest expenses to revenues will remain around the 60% mark in each year from 2015-2017; we note that the management targets a range of 56%-60% by 2017. ABN AMRO reported an underlying cost-to-income ratio of 59% in the first nine months of 2015, but the bank has stated that it expects regulatory industry levies of €246 million in the fourth quarter, which will dampen the full-year ratio. We include these levies in our calculation of operating expenses.

We consider the quality of capital to be sound. We assume that adjusted common equity will represent about 94% of total adjusted capital at year-end 2015. This is because we include only the 2015 AT1 instrument as an eligible hybrid.

Table 3

ABN AMRO Bank N.V. Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	16.2	14.6	15.3	12.9	13.0
S&P RAC ratio before diversification	N.M.	8.5	7.5	7.1	7.6
S&P RAC ratio after diversification	N.M.	9.5	8.6	7.8	8.6
Adjusted common equity/total adjusted capital	94.2	100.0	100.0	98.5	86.3
Net interest income/operating revenues	71.5	74.8	73.5	68.5	64.1
Fee income/operating revenues	21.5	21.0	22.4	21.2	23.2
Market-sensitive income/operating revenues	1.6	1.6	1.3	4.0	6.4
Noninterest expenses/operating revenues	57.8	59.4	64.5	60.4	62.1
Preprovision operating income/average assets	0.9	0.9	0.7	0.7	0.8
Core earnings/average managed assets	0.6	0.4	0.3	0.3	0.3

*Data as of Sept. 30. N.M.--Not meaningful.

Table 4

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

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	44,691	2,175	5	1,558	3
Institutions	24,577	5,325	22	6,165	25
Corporate	94,457	40,350	43	64,009	68
Retail	178,808	30,163	17	54,510	30
Of which mortgage	157,945	21,600	14	40,814	26
Securitization§	2,434	238	10	537	22
Other assets	4,671	3,175	68	5,497	118
Total credit risk	349,638	81,425	23	132,276	38
Market risk					
Equity in the banking book†	1,571	5,013	446	14,050	894
Trading book market risk	--	5,813	--	8,719	--
Total market risk	--	10,825	--	22,769	--
Insurance risk					
Total insurance risk	--	--	--	5,588	--
Operational risk					
Total operational risk	--	16,163	--	16,909	--

Table 4

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

(Mil. €)	Basel III RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments				
RWA before diversification	109,677		177,541	100
Total diversification/concentration adjustments	--		(17,679)	(10)
RWA after diversification	109,677		159,862	90
(Mil. €)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	15,435	14.1	15,150	8.5
Capital ratio after adjustments‡	15,435	14.1	15,150	9.5

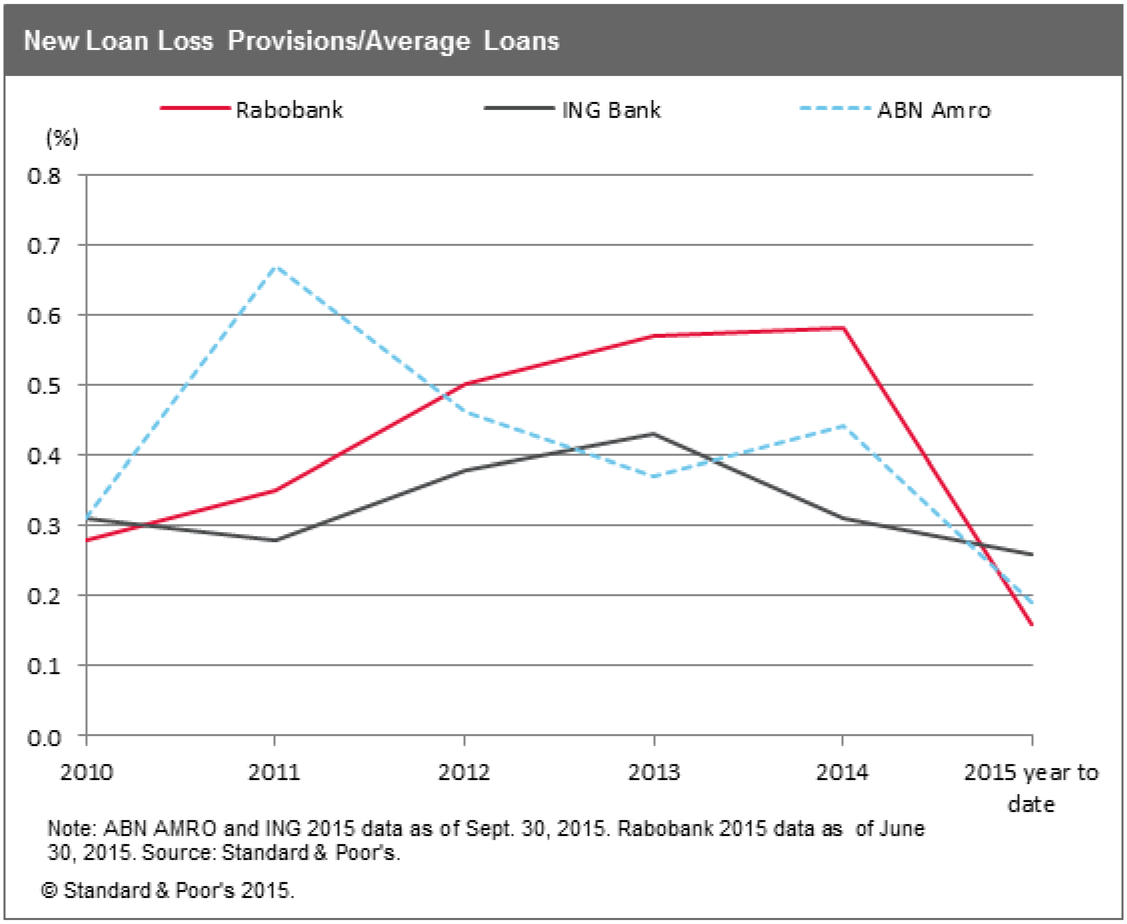
*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 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 as of Dec. 31, 2014, Standard & Poor's.

Risk position: We assume modest credit growth, despite the return to private ownership

Our assessment of ABN AMRO's risk position as "adequate" incorporates our view that the bank's risk management and exposure are in line with that of its domestic industry and that risks are well captured by our RAC framework. We consider that ABN AMRO's asset quality metrics are broadly in line with the average of peer banks operating in countries with similar economic risks.

The loan portfolio is more than 80% focused on The Netherlands and dominated by mortgages that we continue to see as moderate risk. Mortgages represented 58% of the customer loan book at Sept. 30, 2015. We see the quality of the ABN AMRO mortgage lending book as broadly in line with the market average. The corporate portfolio, 32% of the loan book, is granular, with moderate sector and individual corporate concentrations. Financial investments are essentially high quality government bonds held as part of the bank's liquidity buffer.

We calculate that ABN AMRO's loan loss rate averaged around 42 basis points over the 2012 to 2014 period. Looking ahead to the 2015-2017 period, our assumption of a 25 basis point loss rate average is not better than our expectations for the major Dutch banks (see chart 1).



ABN AMRO's risk profile is dominated by credit risk. However, the bank's operational risk is not negligible, in our opinion, given the size of private banking activities and the existence of specific niches such as clearing.

Table 5

ABN AMRO Bank N.V. Risk Position

	--Year-ended Dec. 31--				
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	(0.2)	1.8	(2.0)	2.4	(1.7)
Total diversification adjustment/S&P RWA before diversification	N.M.	(10.0)	(13.0)	(8.8)	(12.0)
Total managed assets/adjusted common equity (x)	25.6	25.5	25.7	28.9	32.8
New loan loss provisions/average customer loans	0.2	0.4	0.4	0.5	0.7
Net charge-offs/average customer loans	0.3	0.5	0.6	0.5	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.9	3.1	3.3	3.2	3.3
Loan loss reserves/gross nonperforming assets	58.1	57.1	57.9	64.2	64.6

*Data as of Sept. 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

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

Our view of ABN AMRO's funding as "average" factors in its large and stable customer deposit base, despite some reliance on wholesale funding. Its reported loan-to-deposit ratio was 110% at Sept. 30, 2015, down from 117% a year before. We note that the consolidated metric benefits from ABN AMRO's private banking franchise (€66.7 billion deposits at Sept. 30, 2015); its retail banking division reports a much higher loan-to-deposit ratio of 153%. We acknowledge that this profile is typical in the Dutch market due to the large amount of mortgage debt outstanding owing to tax relief, and because Dutch household savings are typically channeled into investments such as the mandatory and collective pension system and life insurance products.

Over the next two years, we assume fairly limited credit growth of 2%-3% range per year, but that customer deposits will exhibit stability and the reliance upon 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 100% at Dec 31, 2014, similar to the prior year, and we expect little change at year-end 2015.

The bank maintains a surplus of liquid assets well in excess of regulatory requirements. At Sept. 30, 2015, it reported a liquidity buffer of €85.4 billion, which comfortably exceeds reported short-term wholesale funding. About one-half of the liquidity buffer comprises deposits at central banks, mainly held at the European Central Bank and the Federal Reserve, and Dutch 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 1.2x at Dec. 31, 2014, unchanged from the year before, and we assume little change at year-end 2015.

Table 6

ABN AMRO Bank N.V. Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Core deposits/funding base	62.6	64.5	62.3	58.2	52.6
Customer loans (net)/customer deposits	114.6	121.3	124.0	130.5	136.1
Long term funding ratio	83.5	85.9	83.8	80.4	73.8
Stable funding ratio	107.2	99.6	100.5	98.7	93.6
Short-term wholesale funding/funding base	17.2	14.7	16.9	20.4	27.1
Broad liquid assets/short-term wholesale funding (x)	1.5	1.2	1.2	1.2	1.0
Net broad liquid assets/short-term customer deposits	14.4	4.7	6.0	5.9	(0.7)
Short-term wholesale funding/total wholesale funding	45.7	41.5	44.9	48.6	56.6
Narrow liquid assets/three-month wholesale funding (x)	3.3	1.5	2.1	1.5	1.4

*Data as of Sept. 30.

Support: ALAC has replaced government support in Dutch bank ratings

In our view, ABN has high systemic importance in The Netherlands, mainly reflecting its material market share in retail deposits. Since December 2015, we have regarded 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" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

Our ALAC calculation at year-end 2014 includes regulatory capital instruments that have defined principal write-down triggers. On this basis, we calculate that ALAC was 5.8% of Standard & Poor's RWA of which "excess" TAC was 1.5%. Based upon around €1 billion of net Tier 2 issuance in 2015, and increased "excess" TAC we assume that ALAC will likely be over 7% of Standard & Poor's RWA at year-end 2015. We believe this ratio is likely to increase over the next two years because future regulatory requirements appear likely to oblige ABN AMRO to increase the buffer of instruments that we expect will be ALAC-eligible. Taking into account our projected RAC assumptions, we project that ABN AMRO's ALAC ratio will be comfortably in excess of 8%, our threshold for two notches of uplift in the ratings, in 2016 and thereafter.

Additional rating factors:

No additional factors affect the ratings.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- ABN AMRO Bank Outlook Revised To Stable On Government Support And ALAC Review; 'A/A-1' Ratings Affirmed, Dec. 3, 2015
- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- ABN AMRO Bank Proposed Undated Deeply Subordinated AT1 Fixed Rate Resettable Callable Capital Securities Rated 'BB', Sept. 10, 2015

Ratings Detail (As Of December 3, 2015)	
ABN AMRO Bank N.V.	
Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Local Currency	A-1
Commercial Paper	A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Secured	A
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	
ASEAN Regional Scale	axA-
Subordinated	BBB-
Counterparty Credit Ratings History	
02-Dec-2015	A/Stable/A-1
29-Apr-2014	A/Negative/A-1

Ratings Detail (As Of December 3, 2015) (cont.)	
16-Nov-2012	A/Stable/A-1
23-Jan-2012	A+/Negative/A-1
08-Dec-2011	A+/Watch Neg/A-1
Sovereign Rating	
Netherlands (State of The)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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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