MOODY'S INVESTORS SERVICE

CREDIT OPINION
21 December 2017

Update

Rate this Research

RATINGS

ABN AMRO Bank N.V.

Domicile	Amsterdam, Netherlands
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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ABN AMRO Bank N.V.

Update to credit analysis

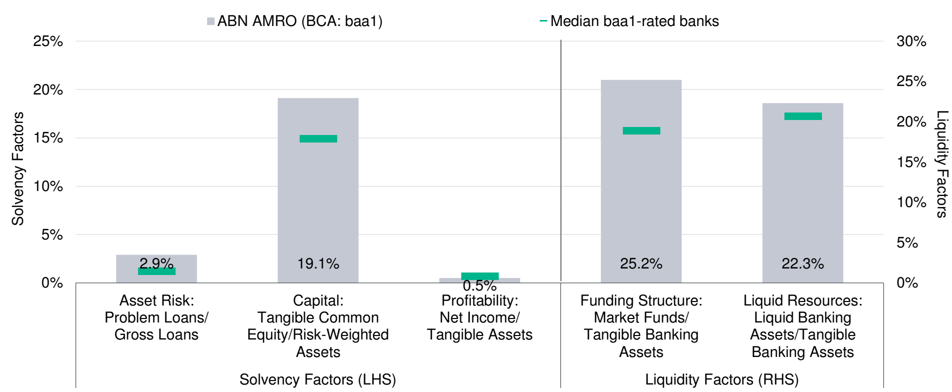
Summary

ABN AMRO Bank N.V.'s (ABN AMRO) baseline credit assessment (BCA) of baa1 reflects the bank's overall good financial fundamentals including sound profitability and asset quality, solid capitalization and a robust liquidity position. The BCA further captures the bank's strong footprint in the Dutch market, its balanced business mix between retail and commercial banking, and its private banking activity undertaken across Europe.

The A1/Prime-1 deposit and senior unsecured ratings reflect (1) the bank's standalone credit strength; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift — for both senior debt and deposits — from the Adjusted BCA of baa1, given the significant volumes of senior debt and junior deposits, resulting in very low loss given failure for these instruments; and (3) government support uplift of one notch, reflecting a moderate probability of government support in view of the bank's systemic importance.

The counterparty risk assessment (CRA) of Aa3(cr)/Prime-1(cr) assigned to ABN AMRO is four notches above the BCA, reflecting the substantial volume of bail-in-able liabilities protecting operating obligations, as well as a moderate probability of government support.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong position in the domestic market and select countries. ABN AMRO also benefits from a strong position in some global specialist markets such as Energy, Commodities and Transportation, asset-based finance and clearing.

» Moderate risk profile owing to focus on the retail and commercial banking businesses

» Sound liquidity

» High risk-weighted capitalization

» Sound profitability commensurate with the bank's moderate risk profile

Credit challenges

» Potential pressure on earnings stemming from the low interest rate environment, despite resilient interest income so far

» Relatively high nominal leverage

Rating outlook

Given the generally benign operating environment in the Netherlands and the bank's strong solvency and liquidity, we believe that ABN AMRO's creditworthiness will remain steady over the medium term. We assign a stable outlook to both the long-term deposit and senior unsecured ratings, which also assumes that the bank's liability structure and probability of government support will remain broadly unchanged.

Factors that could lead to an upgrade

An upgrade of ABN AMRO's long-term ratings could occur if (1) the bank's leverage ratio (regulatory ratio of 3.9% as of the end of September 2017) materially improves; or (2) the amount of subordinated debt and hybrid capital increases significantly, adding subordination to the bank's senior creditors and hence reducing their loss given failure.

Factors that could lead to a downgrade

The bank's BCA could be downgraded as a result of (1) a significant deterioration in the bank's asset quality and profitability; or (2) a negative development in its liquidity or if our assessment of the bank's capital adequacy relative to its risks deteriorates. A downward movement in ABN AMRO's BCA would likely result in downgrades to all ratings.

ABN AMRO's deposit and senior unsecured debt ratings could also be downgraded as a result of an increase in loss given failure, should, for example, these instruments account for a significantly smaller share of the bank's overall liability structure, or benefit from lower subordination than is the case now.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	6-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR million)	403,819	394,482	407,373	386,867	372,022	2.4[5]
Total Assets (USD million)	460,576	416,081	442,527	468,130	512,625	-3.0[5]
Tangible Common Equity (EUR million)	19,870	18,853	17,799	15,433	14,701	9.0[5]
Tangible Common Equity (USD million)	22,663	19,885	19,335	18,674	20,257	3.3[5]
Problem Loans / Gross Loans (%)	2.9	3.1	3.1	2.7	2.9	2.9[6]
Tangible Common Equity / Risk Weighted Assets (%)	19.1	18.1	16.5	14.1	13.5	16.9[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	36.6	39.6	40.8	37.6	39.6	38.9[6]
Net Interest Margin (%)	1.6	1.6	1.5	1.6	1.4	1.5[6]
PPI / Average RWA (%)	3.4	2.4	2.9	2.6	2.2	2.8[7]
Net Income / Tangible Assets (%)	0.7	0.5	0.5	0.3	0.1	0.4[6]
Cost / Income Ratio (%)	60.9	69.2	62.0	62.6	65.6	64.0[6]
Market Funds / Tangible Banking Assets (%)	23.4	25.2	25.8	30.4	30.7	27.1[6]
Liquid Banking Assets / Tangible Banking Assets (%)	22.8	22.3	22.4	20.0	21.8	21.9[6]
Gross Loans / Due to Customers (%)	115.4	119.5	114.9	123.5	126.7	120.0[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] Basel II; IFRS. [4] May include rounding differences due to scale of reported amounts. [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented.

Source: Moody's Financial Metrics

Profile

ABN AMRO Bank N.V. (ABN AMRO) is a Dutch universal bank. The bank provides retail, private and commercial banking products and services to individuals, high-net-worth clients, small and medium-sized enterprises (SMEs), large companies and financial institutions. Please refer to ABN AMRO's Company Profile for more information.

Detailed credit considerations

A strong position in the domestic market and in selected countries

ABN AMRO has a strong franchise in the highly concentrated Dutch market, where it is the second-largest bank in retail banking, having a 20%-25% market share in key products, including mortgages, savings and consumer lending. Outside the Netherlands, the bank's franchise is more selective, although it benefits from good brand recognition in selected countries and for certain activities, such as private banking in France and Germany. Around 80% of the bank's operating income is derived from domestic operations.

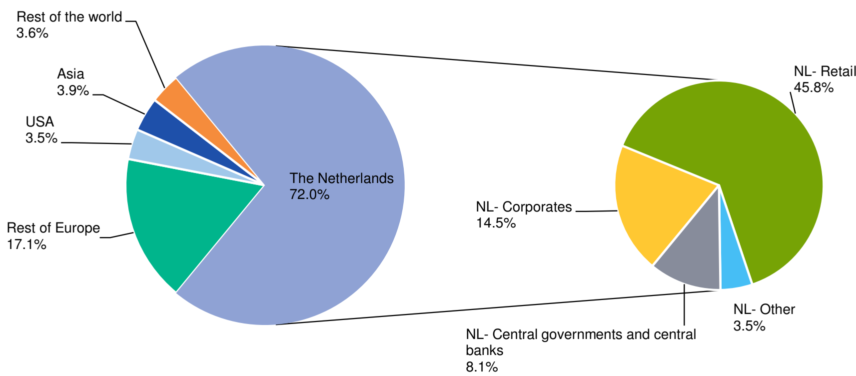
In private banking, ABN AMRO is ranked as the leader in its home market and has significant activities across Europe. As of the end of September 2017, private banking client assets totaled €197 billion.

The bank has also maintained a strong position in commercial banking where its domestic market share ranges from 25% to 30%. In international activities run through its corporate and institutional banking segment, ABN AMRO is an important bank in some global specialist markets such as Energy, Commodities and Transportation (ECT), asset-based finance and clearing.

Moderate risk profile owing to focus on the retail and commercial banking business

As reflected in the assigned Asset Risk score of a3, we consider ABN AMRO's risk profile as moderate overall, reflecting its operations that are primarily traditional retail and commercial banking in the domestic market. As of the end of September 2017, around 60% of the bank's loan portfolio was comprised of exposure to households (primarily residential mortgages). As we expect the Dutch economy to continue to perform well over the coming months, we believe that ABN AMRO will fully benefit from its focus on the domestic market. The bank's cost of risk for the first nine months of 2017 was a net release of 2 basis points (bps) of gross loans versus a net charge of 4 bps of gross loans for the first nine months of 2016.

Exhibit 3
Exposures are concentrated in the Dutch economy
Breakdown of exposures as of year-end 2016



Sources: Company data, Moody's Investors Service

ABN AMRO's ECT business had an on-balance-sheet exposure of €28.8 billion as of the end of September 2017 (or around 10% of the bank's total loans and receivables). While this portfolio performed well until the end of 2015, it has generated the largest part of the bank's impairment charges within the corporate loan portfolio since the beginning of 2016 owing to its exposures to the oil and gas sector and the shipping sector. Impairment charges remained elevated at €153 million for the first nine months of 2017 (or 73 bps). ABN AMRO has a long track record of providing finance in this area, and we recognize the bank’s expertise. We nevertheless believe that despite the generally short-dated and collateralized nature of the exposures, performance in this business, at least in certain sub-areas, is less predictable and stable than retail or SME banking, as is the case now. As we believe this type of business could incur relatively high single-borrower exposures, we see it as modestly negative for the bank's risk profile.

The bank has limited market risk exposure, and related risk-weighted assets (RWA) accounted for around 3% of total RWA as of the end of September 2017. ABN AMRO discontinued its proprietary trading activities in 2010; however, the bank still undertakes some market-making activities, which are relatively small and driven by its corporate and institutional clients.

Sound liquidity position

We view ABN AMRO's liquidity position as sound, and we expect it to remain so over the coming quarters. As of the end of September 2017, the bank disclosed a loan-to-deposit ratio of 111%, which ranks favorably among Dutch banks and is good in the context of the Dutch market, which has a structural deficit of customer deposits. This relatively good funding structure can partly be attributed to ABN AMRO's strong position in private banking, which brings substantial deposits, but generates relatively limited lending. Although private banking deposits could prove less sticky than retail deposits, we believe they will remain an important source of funding for ABN AMRO.

The customer funding gap (around €30 billion as of the end of September 2017) is funded by wholesale borrowing. Risks stemming from the reliance on confidence-sensitive funding are mitigated by the term structure of the outstanding debt, as well as the constitution of a comfortable liquidity buffer. As of the end of September 2017, the €70.2 billion liquidity buffer represented more than three times all the wholesale debt securities maturing within one year, which we consider as more than adequate to cover the liquidity risk. As of the end of September 2017, the bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were above 100%.

All these factors are reflected in our combined Liquidity Score of baa2.

High risk-weighted capitalization, although with higher-than-average nominal leverage

As of the end of September 2017, ABN AMRO reported a fully-loaded Common Equity Tier 1 capital ratio (CET1 ratio) of 17.6%, which we view as very strong compared with its main domestic and European peers. Under the Supervisory Review and Evaluation Process for 2017, the minimum CET1 regulatory requirement is 9%[1]. As of 2019, other things being equal, ABN AMRO expects the fully-loaded

CET1 requirement to be 11.75%, which factors in 100% of the buffers (systemic and conservation), while ABN AMRO targets a CET1 ratio of 13.5%. As of the end of September 2017, the fully-loaded leverage ratio was 3.9%.

The contrast between the strong CET1 ratio and the low leverage ratio reflects the relatively low risk weight of assets, a common feature to all Dutch retail banks, in particular Dutch mortgages (which, given their excellent track record, have relatively low risk weights of currently 10.8%) in the calculation of RWA.

Although reflective of the good historical performance of this asset class, the high loan-to-values ratios (LTV) of Dutch mortgages at origination suggests capital requirements may increase. On 7 December the Basel Committee reached an agreement on the calculation of RWA under the Basel III framework (referred to as Basel IV), which is to be applied from January 2022. This new set of measures imposes, among others, the use of an output floor on RWA calculated using internal models, set at 72.5% of RWA calculated using the standardized approach (please also refer to our research Basel Committee's final rules drive greater consistency in banks' capital ratios). The impact of these new measures has not been yet assessed by ABN AMRO. That said, the bank has maintained its capital at a high level in order to be able to absorb the impact of such changes. The ultimate capital position of the bank will depend on the bank's own capital strategy and the EU implementation.

The assigned Capital score is a1, two notches below the macro-adjusted score. This negative adjustment is owing to the fact that the bank's leverage ratio is below 5%.

Sound profitability commensurate with the bank’s moderate risk profile

Although increasing regulatory costs exert pressure on profits, we believe that ABN AMRO’s profitability is sound and commensurate with the bank’s moderate risk profile.

The bank's net profit in the first nine months of 2017 (€2.2 billion), which exceeded the good performance in the first nine months of 2016 (€1.5 billion), continued to be supported by resilient net interest income and low impairment charges. ABN AMRO has managed to offset negative pressure on revenues from the low interest rate environment through volume growth in both the mortgage and SME/commercial portfolios (around 1.4% in the first nine months of 2017 in the mortgage book and 3.3% in the SME loan portfolio). Net interest margin for the first nine months of 2017 was also up to 154 bps from 152 bps in the first nine months of 2016.

We view positively the bank's efforts to upgrade its IT infrastructure, which we consider an essential investment to improve the cost efficiency of a retail-focused bank like ABN AMRO. However, given the increasing weight of regulatory levies, as well as the planned investments to further develop digitalization, we view further improvement in the bank's cost base as challenging. In the second half of 2016, ABN AMRO announced further restructuring measures, involving staff reduction, aimed at offsetting the expected increase in costs stemming from regulatory levies and investment needs by 2020. The bank's cost-to-income ratio was 57.3% in the first nine months of 2017 compared with 61.8% in the first nine months of 2016 and target range of 56%-58% by 2020. The cost-to-income ratio disclosed in exhibit 2 includes all regulatory costs.

The assigned score of ba1 reflects the level of profitability achieved by the bank over the last 2.5 years, which we believe will continue to be supported in the coming months by the benign domestic economic environment and expected recovery in loan volumes.

Support and structural considerations

Loss Given Failure analysis

ABN AMRO is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an Operational Resolution Regime. In calculating loss-given-failure, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a proportion of deposits considered junior of 26%, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

ABN AMRO's deposits are likely to face very low loss given failure, owing to the loss absorption provided by the combination of substantial deposit volume and subordination. This results in a two-notch uplift from the adjusted BCA.

ABN AMRO's senior unsecured debt is also likely to face very low loss-given-failure. This is supported by the combination of senior debt's own volume and the amount of subordination. This results in a two-notch uplift from the adjusted BCA.

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

Government support considerations

As we consider ABN AMRO to be a systemically important bank in the Netherlands, we believe there is a moderate probability of government support, resulting in a one-notch uplift for both the long-term deposit and senior unsecured debt issued by the bank.

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

Counterparty Risk Assessment

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

ABN AMRO's CR Assessment is positioned at Aa3(cr)

Prior to government support, the CR Assessment is positioned three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by subordinated instruments subordinated to the senior obligations represented by the CR Assessment (amounting to 25.8% of tangible banking assets).

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

About Moody's Bank Scorecard

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

Rating methodology and scorecard factors

Exhibit 4

ABN AMRO Bank N.V.

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.9%	a2	←→	a3	Sector concentration	
Capital						
TCE / RWA	19.1%	aa2	←→	a1	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.5%	ba1	↓	ba1	Expected trend	
Combined Solvency Score		a2		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	25.2%	baa2	←→	baa2	Term structure	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	22.3%	baa1	←→	baa1	Quality of liquid assets	
Combined Liquidity Score		baa2		baa2		
Financial Profile				baa1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a3-baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	111,515	27.6%	135,546	33.6%
Deposits	235,590	58.4%	211,560	52.4%
Preferred deposits	174,337	43.2%	165,620	41.0%
Junior Deposits	61,253	15.2%	45,940	11.4%
Senior unsecured bank debt	32,397	8.0%	32,397	8.0%
Dated subordinated bank debt	11,975	3.0%	11,975	3.0%
Equity	12,108	3.0%	12,108	3.0%
Total Tangible Banking Assets	403,585	100%	403,585	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	25.4%	25.4%	25.4%	25.4%	3	3	3	3	0	a1 (cr)
Deposits	25.4%	6.0%	25.4%	14.0%	2	3	2	2	0	a2
Senior unsecured bank debt	25.4%	6.0%	14.0%	6.0%	2	1	2	2	0	a2
Dated subordinated bank debt	6.0%	3.0%	6.0%	3.0%	-1	-1	-1	-1	0	baa2
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	ba1 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3 (cr)	--
Deposits	2	0	a2	1	A1	A1
Senior unsecured bank debt	2	0	a2	1	A1	A1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2
Non-cumulative bank preference shares	-1	-2	ba1 (hyb)	0	Ba1 (hyb)	--

Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
ABN AMRO BANK N.V.	
Outlook	Stable
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The 9% requirement includes 4.50% of Pillar 1, 1.75% of Pillar 2 requirement, 1.25% of phased-in capital conservation buffer and 1.50% of phased-in systemic risk buffer.

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