FitchRatings

Banks
Universal Commercial Banks
Netherlands

ABN AMRO Bank N.V.

Key Rating Drivers

IDR Above VR: ABN AMRO Bank N.V.'s Long-Term Issuer Default Rating (IDR) is one notch above its Viability Rating (VR), which reflects a large buffer of qualifying junior debt (QJD) that could protect senior debtholders from default in case of failure. A QJD buffer of at least 10% of risk-weighted assets (RWAs) is required to maintain the uplift (end-March 2020: 11%).

Negative Outlook: The risks to the bank's operating environment, asset quality and profitability are skewed to the downside from the economic fallout from the coronavirus outbreak. We also take into consideration increased uncertainty whether the QJD buffer will be sustainably maintained above 10% of RWAs to protect from default all senior obligations, including senior non-preferred debt, the reference liability for the Long-Term IDR.

Asset Quality to Deteriorate: Stage 3 loans (2.8% of gross loans at end-March 2020) will increase due to asset-quality pressure in cyclical sectors such as oil and gas, offshore and other sectors directly affected by the coronavirus outbreak (about 8% of loans). Credit quality in residential mortgage lending should hold up reasonably well, assuming an only moderate spike in unemployment. The bank expects loan impairment charges (LICs) to represent 90bp of gross loans in 2020, well above its 25bp-30bp through-the-cycle average.

Profitability Is Under Pressure: In 2020 ABN AMRO's results will be affected by high LICs, deposit margin compression and likely lower demand for credit in light of coronavirus-driven subdued consumption and investment activity. We expect good cost discipline, despite investments in customer due diligence remediation programmes. ABN AMRO expects EUR2.5 billion LICs in 2020, which according to our estimates could absorb about 80% of its pre-impairment operating profit.

Strong Capitalisation: ABN AMRO's risk-weighted capital ratios are strong. Its common equity Tier 1 (CET1) ratio declined slightly to 17.3% at end-March 2020, due to the quarterly loss in 1Q20 and increases in RWAs. This is equivalent to an about 14% CET1 ratio including future regulatory-driven RWA inflation, in particular the Basel III end-game rules.

Stable Funding, Robust Liquidity: ABN AMRO's funding is diverse, and the bank maintains good access to the wholesale markets as highlighted by its first two senior-non preferred debt issuances in 1H20. The liquidity buffer is ample and of high quality.

Rating Sensitivities

Economic Stress: The bank has headroom to emerge from the crisis with its rating intact given the relative strength of its financial profile at its rating level and because of its sound capital buffers. The ratings could be downgraded if a delay in the expected recovery results in more permanent damage to the bank's asset quality and earnings, which would be difficult to restore within a short time.

Lower Junior Debt Buffer: The Long-Term IDR is likely to be downgraded to the level of the VR if there is a clear indication that the QJD buffer will fall below 10% of RWAs on a sustained basis. This could be due to partial replacement of Tier 2 debt (part of QJD) by senior non-preferred debt, or a significant increase in RWAs.

Shock to Capitalisation: The bank's ratings could also be downgraded if the Dutch authorities' investigation results in a fine that materially dents its capital base. The bank is subject to investigation in relation to requirements under the Act on the Prevention of Money Laundering and Financing of Terrorism.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)
Viability Rating	a
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook: June 2020 - Coronavirus Disruption Easing

Fitch Takes Rating Action on Seven Dutch Banks on Coronavirus Disruption (April 2020)

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Debt Rating Classes

Rating level	Rating
ABN AMRO Bank N.V.	
Senior preferred	A+/F1
Senior non-preferred	A+
Tier 2 Subordinated debt	A-
Additional Tier 1 notes	BBB-
ABN AMRO Funding USA LLC	
Senior unsecured	F1

Source: Fitch Ratings

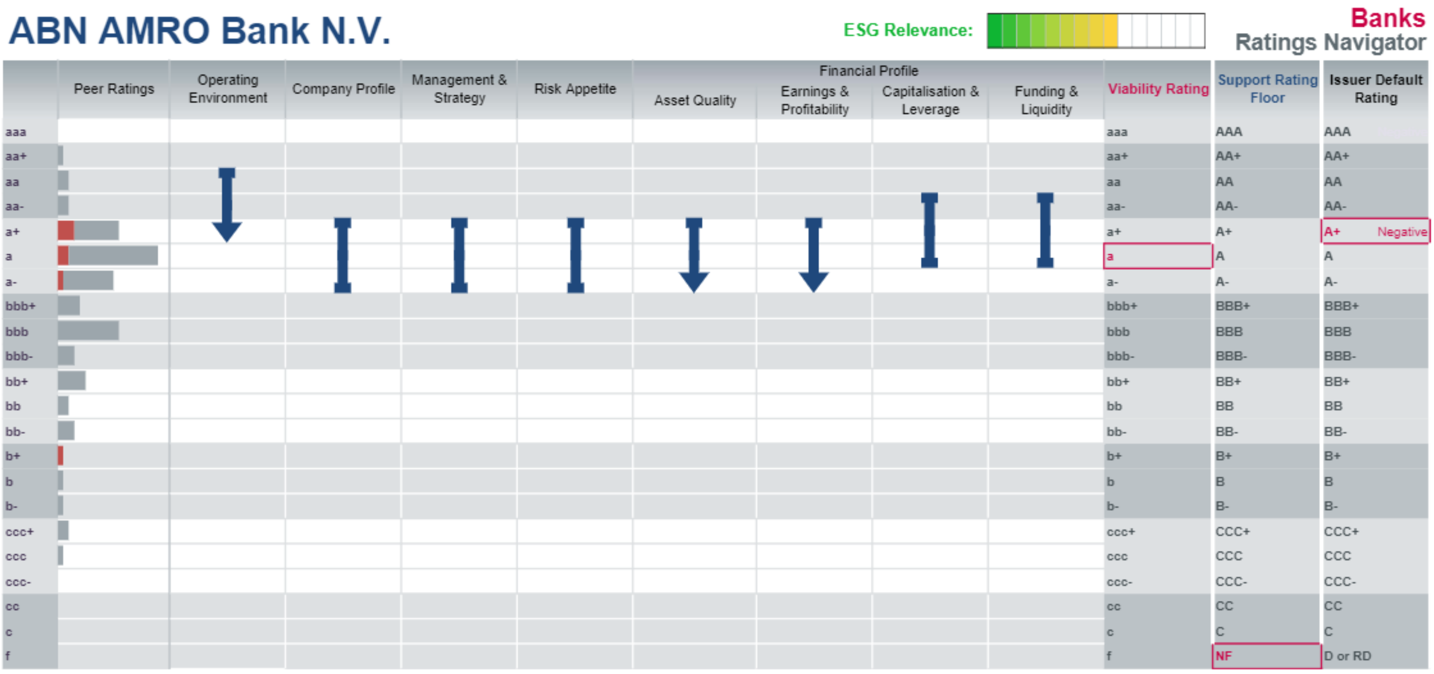
ABN AMRO's senior preferred debt and senior non-preferred debt are rated in line with the bank's Long-Term IDR. This is due to the significant QJD, consisting of Tier 2 and additional Tier 1 instruments, of above 10% of RWAs, which could be made available to protect senior obligations from default in case of failure. If ABN AMRO's Long-Term IDR were downgraded to the level of the bank's VR, senior preferred debt could receive a one-notch uplift from the Long-Term IDR, provided the combined buffer of QJD and senior non-preferred notes exceeds 10% of RWAs at that point, which is likely given ABN AMRO's need to meet the minimum requirement for own funds and eligible liabilities (MREL), or if the bank meets its MREL with senior non-preferred and more junior instruments.

Subordinated (Tier 2) debt is rated one notch below ABN AMRO's VR (compared with a two-notch base case under Fitch's criteria) to reflect the loss severity mitigation in light of the bank's thick Tier 2 and additional Tier 1 debt buffers of more than 10% of its RWAs.

ABN AMRO's Capital Requirements Directive IV-compliant perpetual non-cumulative additional Tier 1 instruments are rated four notches below the bank's VR. This is to reflect the higher-than-average loss severity risk of these securities (two notches) and the high risk of non-performance (two notches). Our assessment is based on ABN AMRO operating with a CET1 ratio comfortably above maximum distributable amount thresholds and our expectation that this will continue.

ABN AMRO Funding LLC is a US-based funding vehicle fully owned by ABN AMRO. The rating of the US commercial paper debt securities issued by the vehicle is aligned with ABN AMRO's Short-Term IDR in light of ABN AMRO's guarantees on the securities issued by ABN AMRO Funding LLC.

Ratings Navigator



Significant Changes

Operating Environment Under Pressure

Fitch revised its outlook for the Dutch banks' operating environment to negative in April 2020 to reflect increased risks from economic disruption as a result of the coronavirus outbreak. Business activity in Netherlands has been less constrained than in most European economies because the authorities introduced limited lockdown measures. Nevertheless, we expect Dutch GDP to contract by 7.1% in 2020 and then rebound by 4.1% in 2021. The uncertainties surrounding growth forecasts are extremely high, and an even larger decline in output in 2020 and a weaker recovery in 2021 are possible.

ABN AMRO's largest market is in the Netherlands (about 90% of 2019 profit before tax). The Dutch government introduced a large fiscal package (about 10% of GDP) to protect the economy from the coronavirus downturn. It includes employment-related measures for employed and self-employed workers, such as labour retention packages or salary compensation in case of a materially lower turnover related to the coronavirus outbreak. The government support also comprises tax deferrals and loan guarantees on new bank loans for companies. We expect these measures to help cushion the direct impact of the coronavirus crisis on the asset quality and profitability of Dutch banks.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,673	1,527	6,468	6,593	6,456
Net fees and commissions	480	438	1,632	1,699	1,747
Other operating income	-45	-41	402	733	709
Total operating income	2,108	1,924	8,502	9,025	8,912
Operating costs	1,424	1,300	5,257	5,351	5,476
Pre-impairment operating profit	684	624	3,245	3,674	3,436
Loan and other impairment charges	1,217	1,111	657	655	-63
Operating profit	-534	-487	2,588	3,019	3,499
Other non-operating items (net)	n.a.	n.a.	92	67	272
Tax	-101	-92	634	761	980
Net income	-433	-395	2,046	2,325	2,791
Other comprehensive income	-309	-282	-513	-471	-322
Fitch comprehensive income	-742	-677	1,533	1,854	2,469
Summary balance sheet					
Assets					
Gross loans	308,318	281,414	270,528	273,146	277,366
- Of which impaired	8,501	7,759	6,740	5,887	6,909
Loan-loss allowances	3,250	2,966	2,426	2,260	2,460
Net loans	305,068	278,448	268,102	270,886	274,906
Interbank	6,943	6,337	4,718	7,840	10,414
Derivatives	9,058	8,268	5,730	6,191	9,825
Other securities and earning assets	82,475	75,278	61,958	55,576	59,923
Total earning assets	403,544	368,331	340,508	340,493	355,068
Cash and due from banks	29,200	26,652	27,354	34,655	30,034
Other assets	11,964	10,920	7,192	6,147	8,069
Total assets	444,708	405,903	375,054	381,295	393,171
Liabilities					
Customer deposits	260,937	238,168	234,991	236,123	236,700
Interbank and other short-term funding	43,638	39,830	35,685	36,645	45,233
Other long-term funding	96,302	87,899	70,650	74,788	70,436
Trading liabilities and derivatives	12,729	11,618	7,180	7,412	9,449
Total funding	413,606	377,515	348,506	354,968	361,818
Other liabilities	8,382	7,651	5,077	4,967	10,023
Preference shares and hybrid capital	2,173	1,983	1,987	2,008	2,007
Total equity	20,547	18,754	19,484	19,352	19,323
Total liabilities and equity	444,708	405,903	375,054	381,295	393,171
Exchange rate		USD1 = EUR0.91274	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, ABN AMRO Bank N.V.

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-1.8	2.4	2.9	3.3
Net interest income/average earning assets	1.7	1.9	1.9	1.8
Non-interest expense/gross revenue	67.7	62.1	59.6	61.8
Net income/average equity	-8.3	10.6	12.0	14.9
Asset quality				
Impaired loans ratio	2.8	2.5	2.2	2.5
Growth in gross loans	4.0	-1.0	-1.5	2.2
Loan-loss allowances/impaired loans	38.2	36.0	38.4	35.6
Loan impairment charges/average gross loans	1.3	0.2	0.2	0.0
Capitalisation				
Common equity Tier 1 ratio	17.3	18.1	18.4	17.7
Tangible common equity/tangible assets	4.6	4.8	5.0	4.9
Basel leverage ratio	4.1	4.5	4.2	4.1
Net impaired loans/common equity Tier 1	24.8	21.7	18.8	23.7
Funding and liquidity				
Loans/customer deposits	118.2	115.1	115.7	117.2
Liquidity coverage ratio	133.0.	134.0	n.a.	n.a.
Customer deposits/funding	64.5	68.3	67.5	66.6
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ABN AMRO Bank N.V.

Key Financial Metrics – Latest Developments

Asset Quality to Suffer from Economic Stress

ABN AMRO's asset quality is supported by its well-performing Dutch mortgage loans (half of the loan book), where the Stage 3 ratio was just 0.8% at end-March 2020. We expect mortgage lending to continue to perform well during the coronavirus stress, given prudent underwriting, assuming an only moderate increase in unemployment. About 15% of lending is to Dutch SME customers, which could prove vulnerable in times of economic stress, but this should be mitigated by material government support.

The bank is exposed to some cyclical industries through its global natural resources, global transportation and logistics and trade and commodity finance portfolios. At end-2019, exposure at default to the oil, gas, energy-offshore and commodity trading sectors was EUR14 billion, ie about three-quarters of the bank's CET1 capital. Most of the oil and gas exposure is to the US while the offshore clients are mainly in northern Europe. Although the bank has been de-risking its net lending exposure by 10% over the past two years, to EUR6.4 billion at end-March 2020, in particular in offshore, these exposures were one of the key drivers of credit losses in 1Q20.

In 1Q20, impairment charges spiked to EUR1.1 billion, including EUR511 million of management overlay (40% related to oil and gas) and EUR460 million of credit losses on two specific large tickets. LICs (excluding the large ticket in trade and commodity finance and the clearing business) were about 90bp of gross loans, which is in line with ABN AMRO's 2020 annual impairment guidance of EUR2.5 billion.

The Stage 2 ratio reached a material 12.7% at end-March 2020 from 6.4% at end-2019. This was mainly driven by weaker performance in the oil and gas sector and the bank's expectation of credit risk increase in the leisure, non-food retail and transportation sectors.

Profitability Is Under Pressure

Retail banking generates above half of ABN AMRO's net income, and despite pressure from the low interest rates, earnings should remain resilient, underpinned by the low-risk mortgage lending business. In 1Q20, commercial banking (mostly domestic medium-sized corporates) was materially affected by a large allocation of coronavirus-related LICs. Private banking is suffering from lower assets under management, and corporate and investment banking from negative fair-value adjustments and high LICs. Profitability in 2020 will suffer from high LICs, the low-interest-rate environment and weak growth prospects. Expenses could be modestly lower thanks to ABN AMRO's cost-saving programmes.

Strong Capitalisation

At end-March 2020, the bank's CET1 ratio of 17.3% was modestly below its internal target of 17.5%-18.5%, but remained comfortably above the revised Supervisory Review and Evaluation Process requirement of 9.7% (revised from 12.1% at end-2019).

ABN AMRO reported a Basel III leverage ratio of 4.1% at end-March 2020, only moderate compared with peers. It is affected by the regulatory treatment of certain derivative exposures in its clearing business, which inflates the leverage exposure measure. A planned change in regulatory approach to cleared derivatives should in the medium term increase the bank's leverage ratio by about 0.7pp.

Diversified Funding, Ample Liquidity

ABN AMRO's funding is diversified, and the bank maintains good access to the wholesale market. With a loans/deposits ratio of 118% at end-March 2020 (as calculated by Fitch, with gross loans in the numerator and including public sector loans and deposits), the bank uses wholesale funding to fund part of the loan book. The large mortgage loan market in the Netherlands combined with significant pension savings (resulting in limited inflow of deposits into the banking system) means that this is unlikely to change in the medium term.

ABN AMRO's liquidity buffer is ample (EUR70.8 billion at end-March 2020 or 17% of assets), of high quality and well in excess of the EUR35.5 billion wholesale funding maturing within one year.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation w ith senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ow nership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ow nership			

ABN AMRO's Support Rating of '5' and Support Rating Floor of 'No Floor 'reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if ABN AMRO becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **ABN AMRO Bank N.V.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ABN AMRO Bank N.V. has 5 ESG potential rating drivers

- ABN AMRO Bank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.