FITCH AFFIRMS ABN AMRO AT 'A+'; UPGRADES VR TO 'A'

Fitch Ratings-London/Paris-24 July 2014: Fitch Ratings has affirmed Netherlands-based ABN AMRO Bank N.V.'s (ABN AMRO) Long-term Issuer Default Rating (IDR) and Support Rating Floor (SRF) at 'A+'. The Outlook on the Long-term IDR is Negative. At the same time Fitch has upgraded ABN AMRO's Viability Rating (VR) to 'a' from 'a-'. A full list of rating actions is available at the end of this rating action commentary. The rating actions follow a periodic review of major Benelux banking groups.

The upgrade of ABN AMRO's VR reflects Fitch's view that management has built a solid track record in successfully implementing its chosen strategy since the 2010 merger of the former ABN AMRO Holding and Fortis Bank Nederland. Fitch expects management to remain fully focused on maintaining a strong balance sheet, and the continuing improvements in the bank's financial metrics have been incorporated into the 'a' VR.

KEY RATING DRIVERS - IDRS, SRF AND SENIOR DEBT
ABN AMRO's Long-term IDR is at its SRF, reflecting Fitch's belief that the Dutch State (AAA/Stable) would support the bank if required, given its importance to the domestic economy and financial system.

The Negative Outlook on the Long-term IDR reflect Fitch's view there is a clear intention ultimately to reduce implicit state support for financial institutions in the EU, as demonstrated by a series of legislative, regulatory and policy initiatives. Fitch expects the EU's Bank Recovery and Resolution Directive (BRRD) to be implemented into national legislation in 2H14 or in 1H15. Fitch also expects progress towards the Single Resolution Mechanism (SRM) for eurozone banks in this timeframe. In Fitch's view, these two developments will dilute the influence the Netherlands have in deciding how Dutch banks are resolved and increase the likelihood of senior debt losses in its banks if they fail solvability assessments.

RATING SENSITIVITIES - IDRS, SRFs AND SENIOR DEBT
As ABN AMRO's IDRs, SRF and senior debt ratings are support-driven, they are sensitive to a change in Fitch's assumptions about the ability or propensity of the Dutch State to provide timely support to its domestic banks. ABN AMRO's 'a' VR means, however, that any support-driven downgrade of the bank's Long-term IDR and senior debt ratings would be limited to one notch, by which point the ratings would be based only on its standalone strength.

The Support Rating and SRF are primarily sensitive to further progress made in implementing the BRRD and the SRM. The directive requires 'bail in' of creditors by 2016 before an insolvent bank can be recapitalised with state funds. A functioning SRM and progress on making banks 'resolvable' without jeopardising the wider financial system are areas of focus for eurozone policymakers. Once these are operational they will become an overriding rating factor for any support considerations, as the likelihood of the bank's senior creditors receiving full support from the sovereign if ever required, despite its systemic importance, will diminish substantially.

Fitch expects that the BRRD will be enacted into national legislation in the near term and progress made on establishing the SRM is looking close to being ready in the next one to two years. Fitch expects to then downgrade ABN AMRO's Support Rating to '5' and revise its SRF to 'No Floor'.
The Support Rating and SRF are also sensitive to changes in Fitch's assumptions about the sovereign's ability (as reflected by its ratings) to provide support.

KEY RATING DRIVERS - VR

ABN AMRO's VR reflects the bank's strong Dutch franchise, complemented by international private banking, providing it with resilient revenue generation. The VR also takes into account the bank's continued focus on maintaining a moderate risk profile, and expected gradual improvements of asset quality.

ABN AMRO's profitability is in line with that of similarly rated European peers. The bank has been affected by elevated loan impairment charges (LICs) in recent years, shaving 30% to 60% off pre-impairment operating profits since 2010. As the economy recovers, Fitch expects LICs will reduce in 2014 and 2015, and with pre-impairment operating profit/equity of around 20%, improved profitability should be achievable, supporting the bank's internal capital generation. Cost-saving initiatives are also being implemented, which are expected to improve ABN AMRO's cost efficiency, which is somewhat higher than peers'.

Limited asset growth and a low dividend payout ratio since 2010 have supported ABN AMRO's efforts to build capital. Capitalisation compares well with similarly rated peers, particularly on a risk-weighted basis, with a fully loaded Basel 3 common equity Tier 1 (CET1) ratio of 12.9% at end-March 2014. ABN AMRO's fully loaded Basel 3 leverage ratio was 3.6% at the same date, and the 'a' VR incorporates expected gradual reduction in leverage. Further improvement in capitalisation is likely to be driven by retained earnings, and possibly with the issuance of additional Tier 1 instruments once their tax treatment is voted in by the Dutch parliament.

The quality of ABN AMRO's loan book remains resilient, despite around 20% house price correction in the Netherlands since the peak in 2008. Residential mortgage loans make up the majority of the portfolio, and impaired loans remain manageable. Commercial real estate lending has been more severely affected by the Dutch recession, as evidenced in a materially higher impaired loans percentage, although this remains manageable for the bank.

ABN AMRO is reliant on wholesale markets for structural funding. The bank maintains a reasonable buffer of high-quality liquid assets to mitigate refinancing risks.

RATING SENSITIVITIES - VR

The bank's VR incorporates a gradual improvement in asset quality, profitability and leverage, and given the high rating, upside potential is limited.

A material deterioration in the bank's earnings generation or asset quality, affecting its capital or access to/cost of wholesale funding would likely result in a downgrade of the VR.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

As the bank's subordinated debt and hybrid securities are notched down from its VR, their respective ratings have been upgraded. The ratings are sensitive to a change in ABN AMRO's VR.

In accordance with Fitch's criteria 'Rating Bank Regulatory Capital and Similar Securities', subordinated (lower Tier 2) debt is rated one notch below ABN AMRO's VR to reflect the above-average loss severity of this type of debt.

Upper Tier 2 debt and Tier 1 securities are rated three and four notches below ABN AMRO's VR, respectively, to reflect higher loss severity risk of these securities relative to average recoveries (one and two notches from the VR, respectively) as well as high risk of non-performance (an additional two notches for each debt security).

KEY RATING DRIVERS AND SENSITIVITIES - SUSBIDIARY AND AFFILIATED COMPANY

ABN AMRO Funding LLC is a US-based funding vehicle fully-owned by ABN AMRO. The rating of the US commercial paper (CP) debt securities issued by the vehicle is aligned with ABN AMRO's Short-term IDR, based on Fitch's view that there is an extremely high probability of support from

ABN AMRO if required. This view is underpinned by ABN AMRO's guarantees on the securities issued by ABN AMRO Funding LLC.

The rating of the US CP debt is therefore sensitive to changes in ABN AMRO's Short-term IDR. The rating actions are as follows:

ABN AMRO
Long-term IDR: affirmed at 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1+'
Viability Rating: upgraded to 'a' from 'a-'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+'
Commercial paper: affirmed at 'F1+'
Long-term senior unsecured notes: affirmed at 'A+'
Short-term senior unsecured notes: affirmed at 'F1+'
Subordinated debt: upgraded to 'A-' from 'BBB+'
Non-innovative Tier 1 subordinated debt (XS0246487457): upgraded to 'BBB-' from 'BB+'
Upper Tier 2 subordinated debt (XS0244754254): upgraded to 'BBB' from 'BBB-'

ABN AMRO Funding USA LLC
Short-term senior unsecured notes: affirmed at 'F1+'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 31 January 2014' and 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 31 January 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397