FITCH UPGRADES ABN AMRO TO 'A+'; OUTLOOK STABLE

Fitch Ratings-London-14 April 2016: Fitch Ratings has upgraded ABN AMRO N.V.'s Long-Term Issuer Default Rating (IDR) to 'A+' from 'A', and affirmed the bank's Short-Term IDR at 'F1' and Viability Rating (VR) at 'a'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

The Long-Term IDR has been upgraded to one notch above the VR as a result of the now significant junior debt buffers that provide additional protection for senior unsecured creditors.

The rating actions are part of a periodic portfolio review of major Benelux banking groups rated by Fitch.

KEY RATING DRIVERS

IDRS AND SENIOR DEBT
ABN AMRO's Long-Term IDR and senior debt ratings are one notch above the bank's VR because we believe that the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR.

The one-notch uplift reflects a significant junior debt buffer, which could be made available to protect senior obligations from default in case of failure, either under a resolution process or as part of a private sector solution (ie, distressed debt exchange) to avoid a resolution action.

Without such a private sector solution, we would expect a resolution action being taken on ABN AMRO when it breaches minimum capital requirements. ABN AMRO's capital requirement by the ECB following the 2015 supervisory review and evaluation process (SREP) is a common equity Tier 1 ratio to risk-weighted assets of 9.5% for 2015. In addition, the Dutch DNB imposes a systemic risk buffer to reach 3% in 2019. We have assumed the intervention point would be around 6%-7% of risk exposure amount.

Fitch believes that ABN AMRO would need to meet its minimum capital requirements immediately after a resolution action, and given ABN AMRO's domestic systemic importance, Fitch believes minimum capital requirements will include most, if not all, of its combined buffer requirements. On a risk-weighted basis therefore, Fitch has estimated a common equity Tier 1 capital requirements in the upper 12%-15% range is plausible under a bail-in scenario post resolution action.

At end-2015, the qualifying junior debt buffer amounted to around 9.5% of risk exposure amount, which should be sufficient to restore the group's viability without hitting senior creditors (taking into consideration Fitch's view of the regulatory intervention point and post-resolution capital needs).

We have also assumed that the group will further strengthen this junior debt buffer and replace maturing instruments (such as the EUR1.5bn issued and EUR1.2bn redeemed in 1Q16, with a further USD1bn issued in April 2016). This is in line with its stated target of meeting the current minimum requirement for own funds and eligible liabilities (MREL) shortfall with subordinated debt and retained earnings over the next few years, which will increase protection for its senior creditors.

The Short-Term IDR of 'F1' maps to the lower of the two options of the 'A+' Long-Term IDR. While Fitch believes ABN AMRO's funding and liquidity is solid, it is not outperforming similarly rated peers.

VR

ABN AMRO's VR reflects its strong Dutch franchise, complemented by its international private banking and energy, commodities and transportation franchises provides it with resilient revenue generation. The ratings also take into account the bank's continued focus on maintaining a moderate risk profile, and expected gradual improvements in its asset quality. The bank's limited geographical diversification is also factored into the VR.

Fitch expects credit standards to remain conservative following its initial public offering, where the government sold a 23% stake, and that the strategic direction will not change materially as a result. The bank's emphasis on solid capitalisation, underpinned by resilient internal capital generation, limited loan growth and a moderate dividend payout ratio will likely be maintained. Risk-weighted capital ratios compare well with similarly rated peers, although the bank's leverage ratio is only moderate.

Profitability improved in 2015, primarily due to lower loan impairment charges (LICs), and Fitch expects continued low LICs and a focus on costs will mitigate pressures from low interest rates and limited growth opportunities in 2016. The quality of ABN AMRO's loan book remains resilient, and low-risk residential mortgage loans make up the majority of the portfolio. SME and commercial real estate lending have been more severely affected by the Dutch recession, although impaired loans levels remain manageable for the bank.

ABN AMRO's funding is relatively diverse, although it needs the wholesale markets for part of its structural funding. The reliance on wholesale funding has been reducing and the loans/deposits ratio, according to Fitch's calculation, with gross loans as the numerator and including public sector in both loans and deposits, fell to just over 110% at end- 2015 from over 130% at end-2012. Access to the wholesale market is good and is via a diverse set of instruments (unsecured bonds, covered bonds and RMBS), and the bank's funding maturity profile is well spread over time. ABN AMRO has to refinance EUR12bn of long-term debt in 2016, which is in line with the amount it raised annually in 2012-2015. However, ABN AMRO's funding structure means that it is sensitive to investor perception, and maintaining a strong liquidity buffer is important to the ratings.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and hybrid securities issued by ABN AMRO are notched off ABN AMRO's VR. Subordinated (lower Tier 2) debt is rated one notch below ABN AMRO's VR to reflect above average loss severity of this type of debt compared with average recoveries.

ABN AMRO's CRD IV-compliant perpetual non-cumulative additional Tier 1 instruments are notched five times below the bank's VR. The notes are subject to automatic temporary write-down if ABN AMRO Group N.V.'s consolidated common equity Tier 1 (CET1) ratio falls below 7% or ABN AMRO's standalone CET1 falls below 5.125%, and any coupon payments may be cancelled at the discretion of the bank. The notching reflects two notches for loss severity in light of the notes' deep subordination and three notches for additional non-performance risk relative to the VR given a high write-down trigger and fully discretionary coupons.

SUPPORT RATING AND SUPPORT RATING FLOOR

The 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 in the event that ABN AMRO becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) 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.

SUBSIDIARY 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 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.

RATING SENSITIVITIES
IDRS AND SENIOR DEBT
As the Long-term IDR and senior debt ratings are notched up from the ABN AMRO's VR, they are sensitive to a change in the bank's VR.

The Long-Term IDR and senior debt ratings are also sensitive to a material reduction in the size of the qualifying junior debt buffer. Our base case is that the ratio will increase and would remain around 10% to be able to afford protection to senior creditors. The notching is sensitive to changes in assumptions on resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

VR
Downward pressure on ABN AMRO's ratings, although not expected, would most likely result from a material deterioration in the bank's earnings generation or asset quality, affecting its capital or access to/cost of wholesale funding.

ABN AMRO's long-term strategy includes maintaining a moderate risk appetite, and since the bank's recreation in 2010, it has increased its capital and liquidity buffers. Fitch does not expect any significant changes to the bank's strategy following the IPO, but significant deviations from the moderate risk appetite and/or operating with reduced buffers following its listing could be rating negative.

The current high VR, particularly considering the limited geographical diversification, mean upside potential is limited

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital are all notched down from the bank's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in ABN AMRO's VR.

Additional Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in ABN AMRO's VR.

SUBSIDIARY AND AFFILIATED COMPANY
ABN AMRO Funding LLC's debt rating is aligned with ABN AMRO's short-term debt rating and is therefore sensitive to changes in ABN AMRO's Short-term IDR.

The rating actions are as follows:

ABN AMRO
Long- Term IDR: upgraded to 'A+' from 'A': Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Long-Term senior unsecured debt rating: upgraded to 'A+' from 'A'
Commercial paper: affirmed at 'F1'
Short-Term senior unsecured notes debt rating: affirmed at 'F1'
Subordinated debt: affirmed at 'A-'
Additional Tier 1 securities (XS1278718686): affirmed at 'BB+'

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

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501