FITCH AFFIRMS ABN AMRO AT 'A+'; OUTLOOK STABLE

Fitch Ratings-London-13 November 2018: Fitch Ratings has affirmed ABN AMRO Bank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, Viability Rating (VR) at 'a' and Short-Term IDR at 'F1'. A full list of rating actions is at the end of this rating action commentary.

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

KEY RATING DRIVERS
IDRS, SENIOR DEBT AND DERIVATIVE COUNTERPARTY RATING
ABN AMRO's Long-Term IDR and senior debt ratings are one notch above the bank's VR because Fitch believes 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 the bank's significant qualifying 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 to be taken on ABN AMRO when it breaches minimum capital requirements. We have assumed that the intervention point would be around the bank's current minimum common equity Tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2 - excluding the combined buffer requirements (CBR)).

We further assume ABN AMRO would need to meet its total minimum capital requirements immediately after a resolution action, which on a fully loaded basis, including the CBR, currently amounts to 15.25%. Taking also into account additional undisclosed Pillar 2 guidance as well as a potential risk weight increase in a stress scenario, a qualifying junior debt buffer of 10% of total risk-weighted assets (RWA) would most likely be sufficient to restore the bank's viability without affecting senior credits.

At end-September 2018, the qualifying junior debt buffer was 11.1% of RWAs. The bank has been building up its buffer of eligible liabilities to meet the upcoming minimum requirement for own funds and eligible liabilities (MREL), set at 29.3% of RWAs. Fitch therefore expects some continued issuance of subordinated instruments. Setbacks to these expectations, for example a material shift to non-preferred senior debt issuance that could also be used for MREL, would result in a downgrade of the Long-Term IDR.

The Derivative Counterparty Rating (DCR) is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

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

VR
ABN AMRO's VR reflects its established domestic universal banking franchise complemented by the bank's international private banking and corporate & institutional banking (CIB) franchises, which provide ABN AMRO with a degree of revenue diversification. The VR is underpinned by

the bank's strong risk-weighted capital ratios and robust funding and liquidity profile, and take into account its sound earnings and asset quality.

ABN AMRO's risk-weighted capital ratios compare well with similarly-rated peers. The fully loaded CET1 ratio was a solid 18.6% at end-September 2018. The bank conservatively targets a CET1 ratio of 17.5%-18.5% (for 2018), which takes into account the likely increase of risk-weights from 2022 due to the implementation of Basel III end-game rules. ABN AMRO estimates the latter could result in a decrease of its CET1 ratio of about 4-5pp, but in our view the bank is well positioned to cope with the impact. Fitch expects the bank to maintain solid capital ratios, underpinned by resilient earnings generation and a moderate dividend payout ratio of 50% of recurring profits.

The reported leverage ratio was moderate at 4.1% at end-September 2018. The leverage ratio is affected by the regulatory treatment of certain derivative exposures in ABN AMRO's clearing business. A change in regulatory approach is possible and could result in a 0.5pp increase in the leverage ratio, making it more in line with peers.

We expect the bank to maintain conservative credit standards as the Dutch government gradually divests its holdings in the bank (currently 56%), and that the strategic direction will not materially change. Low-risk Dutch mortgage loans represent over half of ABN AMRO's loan book, which is healthy overall, with an impaired loans-to-gross loans ratio of 2.2% at end-September 2018. We expect asset quality to remain sound, despite higher impairments reported in 1H18. Our view is supported by the favourable outlook for the Dutch economy, with healthy forecast GDP growth, low unemployment and a growing housing market.

ABN AMRO's profitability has remained resilient in recent years, despite the increasing pressure on net interest income from low interest rates, and it compares well with that of similarly rated peers. The bank's operating profit/RWAs was a robust 3.4% in 9M18, despite increased loan impairment charges (which at 23bp of average gross loans were around the bank's estimated through-the-cycle level of losses but we expect them to come down). The return on average equity of 13.1% in 9M18 was above the bank's target range of 10%-13%. Cost efficiency is in line with peers. ABN AMRO aims for a cost base of around EUR5 billion by 2020 (revised down from EUR5.2 billion following recent divestments and taking into account the planned CIB refocus), which we believe is achievable.

The bank's funding is fairly diverse, with good access to wholesale markets. The bank has reduced its reliance on wholesale funding in recent years, but the large mortgage loan market in the Netherlands, combined with significant pension savings (resulting in limited inflow of deposits into the banking system), means ABN AMRO is likely to maintain some wholesale reliance. Its liquidity buffer is ample and of high quality.

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 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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and hybrid securities issued by ABN AMRO are notched off the bank's VR. Subordinated (Tier 2) debt is rated one notch below ABN AMRO's VR to reflect above- average loss severity of this type of debt.

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 CET1 ratio falls below 7% or ABN AMRO's standalone CET1 falls below 5.125%, and any coupon payments may be cancelled at the bank's discretion. 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.

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 of 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, SENIOR DEBT AND DERIVATIVE COUNTERPARTY RATING

As the Long-Term IDR, senior debt ratings and DCR are notched up from the ABN AMRO's VR, they are sensitive to a change in the bank's VR.

The Long-Term IDR would be downgraded in case of a material reduction of the bank's qualifying junior debt buffer, particularly if it falls below 10% of RWAs, or if we no longer consider it to be sustainable. This could occur for example if the bank replaces part of its qualifying junior debt buffer with non-preferred senior notes, which will become the reference liability for the Long-Term IDR. At the same time, preferred senior debt and the DCR may in this case receive a one-notch uplift from the Long-Term IDR, provided the combined buffer of qualifying junior debt and non-preferred senior notes exceeds 10% of RWAs

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

ABN AMRO's long-term strategy includes maintaining a moderate risk appetite. Fitch does not expect changes to the bank's strategy, but significant deviations from the moderate risk appetite and/or operating with reduced liquidity or capital buffers could be rating-negative.

An extended record of strong performance against stated targets provided that the bank's financial metrics remain robust could be rating positive.

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 a 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 COMPANIES
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 Bank N.V.
Long- Term IDR: affirmed at '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'
Derivative counterparty rating: affirmed at 'A+(dcr)'
Long-term senior unsecured debt and programme ratings: affirmed 'A+'
Short-term senior unsecured debt and programme ratings: affirmed at 'F1'
Commercial paper: affirmed at 'F1'
Subordinated debt: affirmed at 'A-'
Additional Tier 1 securities (XS1278718686, XS1693822634): affirmed at 'BB+'

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

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Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044408