

Rating Action: Moody's upgraded ABN AMRO Bank's deposit and senior unsecured debt to A1, stable outlook

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Short-term rating affirmed at Prime-1, BCA upgraded to baa1

London, 20 May 2016 -- Moody's Investors Service has today upgraded ABN AMRO Bank N.V. (ABN AMRO)'s long-term deposit and unsecured debt ratings to A1 from A2. The outlooks are stable. Short-term deposit and senior unsecured ratings were affirmed at Prime-1. On the same day, the bank's subordinated debt and 'high trigger' Additional Tier 1 (AT1) securities were upgraded to Baa2 and Ba1(hyb) respectively from Baa3 and Ba2(hyb) respectively. Moody's also upgraded ABN AMRO's long-term counterparty risk assessment (CR Assessment) to Aa3(cr) from A1(cr). The short-term CR Assessment was affirmed at Prime-1(cr). These upgrades result from the rating agency's upgrade of ABN AMRO's baseline credit assessment (BCA) to baa1 from baa2.

The upgrade of the BCA reflects an improvement across most of the bank's fundamentals, in particular asset quality, profitability, solvency and liquidity, which is testimony to the progress achieved on all fronts by the bank since its rescue by the Dutch state in 2008. These positive developments eventually led the Dutch government to begin the return of the bank to the private sector via an initial public offering in 2015. Moody's assigned a stable outlook, as it considers that the above fundamentals are now likely to remain steady in the foreseeable future, against a backdrop of a low interest rate environment which will weigh on the bank's revenues and ability to generate capital.

The ratings of ABN AMRO's supported entities were upgraded and affirmed respectively.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

UPGRADE REFLECTS THE BANK'S IMPROVED FUNDAMENTALS

The upgrade of the BCA was driven by Moody's view that ABN AMRO's asset quality has materially improved thanks to the recovery in the domestic economy. The group's cost of risk fell to 19 basis points of gross loans in 2015 from 45 basis points in 2014 and 63 basis points in 2013, primarily driven by a considerable decrease in losses on domestic exposures, in particular to the SME sector. Moody's expects the Dutch economy to continue to perform well over the coming months, which underpins the agency's view that the improvement in asset quality is likely to be sustained. The decrease in loan loss impairment charges has contributed to the restoration of the bank's profitability. Although partly offset by higher operating expenses attributable to increasing regulatory costs and IT investment, ABN AMRO's profit generating capacity has also progressively risen since 2012 thanks to an increase in interest margins driven by loan re-pricing.

At the same time, the bank's solvency and liquidity have further improved, providing it with greater resilience against unexpected losses or a liquidity stress. At 15.8% as of end-March 2016, ABN AMRO's Common Equity Tier 1 ratio ranks amongst the highest of major European banks. Moody's believes the bank is now well-prepared to cope with forthcoming regulatory changes which are likely to result in higher risk weighted assets and hence additional capital requirements. ABN AMRO's funding structure has materially improved over the past three years through an increase in customer deposits and a lengthening in the term structure of its wholesale funding. The bank's solid liquidity is underpinned by a large liquidity buffer that amply covers short-term funding needs.

The BCA of baa1 also reflects 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. These activities result in a moderate risk profile, the sustainability of which is underpinned by the bank's conservative and predictable strategy.

The upgrade of the long-term deposit and senior unsecured ratings to A1 from A2 was prompted by the upgrade of the BCA. These ratings are underpinned by (1) the bank's standalone credit strength; (2) the

application of Moody's 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 and resulting very low loss-given-failure for these instruments; and (3) government support uplift of one notch, reflecting a moderate probability of government support.

The upgrade of the CR Assessment follows the upgrade of the BCA. The CR Assessment of Aa3(cr)/Prime-1(cr) 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.

UPGRADE OF SUBORDINATED AND HYBRID DEBT RATINGS

The upgrade of the subordinated debt and 'high trigger' AT1 securities to Baa2 and Ba1(hyb) respectively were prompted by the upgrade of ABN AMRO's BCA.

The dated subordinated debt instruments are rated one notch below the bank's BCA to reflect their higher loss-given failure.

Moody's positions the rating of the 'high trigger' AT1 securities at the lower of its model output (Baa3(hyb)) and the rating on the bank's non-viability AT1 securities, i.e. the bank's BCA minus three notches (Ba1(hyb)). This rating is maintained by Moody's and not requested by ABN AMRO.

STABLE OUTLOOK

Given the more benign operating environment in the Netherlands and the bank's reinforced solvency and liquidity, Moody's believes that ABN AMRO's creditworthiness will remain steady in the foreseeable future. The agency assigns a stable outlook to both long-term deposit and senior unsecured ratings, which also assumes that the liability structure and probability of government support will remain broadly unchanged.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of ABN AMRO's long-term ratings could occur if (1) the bank achieves a longer track-record of stable and sustainable profit evidencing the effectiveness of its low-risk profile; (2) the bank's leverage ratio, which is currently just below the 4% threshold recommended by the Dutch Ministry of Finance, materially improves; or (3) if the amount of subordinated debt and hybrid capital significantly increases, adding sustainable subordination to the bank's senior creditors and hence reducing their loss-given-failure.

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 and/or capitalisation. 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 they account for a significantly smaller share of the bank's overall liability structure, or benefit from lower subordination than is currently the case.

LIST OF AFFECTED RATINGS

Issuer: ABN AMRO Bank N.V.

..Upgrades:

...Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)

...Long-term Deposit Ratings, upgraded to A1 stable from A2 stable

...Long-term Issuer Ratings, upgraded to A1 stable from A2 stable

...Senior Unsecured Regular Bond/Debenture, upgraded to A1 stable from A2 stable

...Backed Senior Unsecured Regular Bond/Debenture, upgraded to A1 stable from A2 stable

...Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

...Subordinate Regular Bond/Debenture, upgraded to Baa2 from Baa3

...Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

...Pref. Stock Non-cumulative, upgraded to Ba1(hyb) from Ba2(hyb)
...Adjusted Baseline Credit Assessment, upgraded to baa1 from baa2
...Baseline Credit Assessment, upgraded to baa1 from baa2
..Affirmations
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Short-term Deposit Ratings, affirmed P-1
...Other Short Term, affirmed (P)P-1
...Deposit Note/CD Program, affirmed P-1
...Commercial Paper, affirmed P-1

..Outlook Actions:

...Outlook remains Stable

Issuer: Fortis Bank (Nederland) N.V.

..Upgrades:

...Backed Senior Unsecured Regular Bond/Debenture, upgraded to A1 stable from A2 stable

..Outlook Actions:

...No Outlook

Issuer: ABN AMRO Funding USA LLC

..Affirmations:

...Backed Commercial Paper, affirmed P-1

..Outlook Actions:

...No Outlook

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

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