MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ABN AMRO Bank's deposit and senior unsecured debt ratings of A1, stable outlooks

25 Mar 2019

Paris, March 25, 2019 -- Moody's Investors Service today affirmed the A1 long-term deposit and senior unsecured debt ratings of ABN AMRO Bank N.V. (ABN AMRO), with a stable outlook. The Prime-1 short-term deposit and programme ratings were affirmed. The bank's subordinated debt and 'high trigger' Additional Tier 1 (AT1) securities were affirmed at Baa2 and Ba1(hyb), respectively. The AT1 rating of Ba1(hyb) is maintained by Moody's and is not requested by ABN AMRO. Concurrently, Moody's affirmed ABN AMRO's baseline credit assessment (BCA) of baa1.

The rating of ABN AMRO's supported entity, ABN AMRO Funding USA LLC, was affirmed.

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

RATINGS RATIONALE

AFFIRMATION REFLECTS THE BANK'S STABILISATION OF FUNDAMENTALS AT SOUND LEVELS

Moody's affirmation of ABN AMRO's deposit and senior unsecured debt ratings of A1 reflects (1) ABN AMRO's BCA of baa1; (2) two notches of uplift from Moody's Advanced Loss Given Failure (LGF) analysis; and (3) one notch of uplift stemming from a moderate probability of government support.

ABN AMRO's BCA of baa1 is a reflection of the bank's overall good financial fundamentals including sound profitability and asset quality, solid capitalisation and a robust liquidity position. The BCA captures the bank's strong presence in the Dutch market, its balanced business mix of retail, commercial banking, corporate & institutional banking, and its private banking activity across Europe. Moody's also added that, although ABN AMRO was able to improve and stabilise its fundamentals at sound levels in recent years, it did not foresee further significant progress in the foreseeable future.

The bank's asset risks are largely focused on the strong domestic economy, with 72% of exposures at default to customers in the Netherlands. In addition, ABN AMRO's customer loan book is predominantly retail and 55% of the book is made up of Dutch residential mortgage loans. Although Moody's expects impairment charges to remain low over the outlook horizon, the bank's corporate loan book can, at times, generate losses. Indeed, the bank's cost of risk increased to 24 basis points (bps) of customer loans in 2018 from -2 bps in 2017, as a result of credit deterioration in the corporate and commercial loan book. This level of cost of risk was above Dutch peers', albeit still below ABN AMRO's long-term historical average, which the bank estimates at 25-30 bps of customer loans.

The bank's common equity tier 1 (CET1) ratio of 18.4% at year-end 2018 was significantly above the minimum CET1 requirement (SREP) of 11.75% for 2019 set by the European Central Bank. The bank is also very close to meeting its target of a 13.5% CET1 ratio after accounting for the 4-5 percentage-point impact of the so-called 'Basel IV' regulation. The CET1 ratio of 13.5% is the bank's target early in the Basel IV phase-in period. Although ABN AMRO's Tier 1 leverage ratio is still relatively low at 4.2%, it will increase to 4.4% with the approval and implementation of the legal merger of ABN AMRO Group N.V. and ABN AMRO Bank N.V., giving the bank more headroom above the 4% threshold set by the Dutch Ministry of Finance. As the bank is close to its Basel IV capital targets and its loan book will not materially grow in the short term, Moody's expects that the bank will distribute a large share of its earnings and slow down future capital accretion, although such distributions could be limited by potential further capital headwinds, for example the European regulation on the provisioning of non-performing exposures.

Last, significant improvements in profitability are unlikely over the outlook horizon. Net interest margins will likely suffer in 2019, as there is little room for reducing funding costs further and competition in the Netherlands will weigh on the bank's capacity to increase revenues. Therefore, upside on the bank's profitability is limited. Nonetheless, ABN AMRO demonstrated its ability to generate strong earnings in recent years, notably through its capacity to sustain and often increase its commercial margins and also to successfully lower its funding costs, actions which will be more difficult going forward. The bank was also able to lower its recurring operating expenses by almost €700 million in the last three years and aims at reducing them by another €300 million (around 6% of operating expenses in 2018) by 2020. The bank reported net income of 0.61% of tangible assets in 2018, a level of profitability which compares well to its peers.

AFFIRMATION OF SUBORDINATED AND HYBRID DEBT RATINGS

The affirmation of the subordinated debt and 'high trigger' AT1 securities at Baa2 and Ba1(hyb), respectively, follows the affirmation 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 of Baa3(hyb) and the rating on the bank's non-viability AT1 securities, i.e. the bank's BCA minus three notches, which is Ba1(hyb).

STABLE OUTLOOK

The stable outlook reflects the bank's sound fundamentals as well as the limited improvements that the bank is likely to achieve against the backdrop of a slowing Dutch economy, the prospect of a higher dividend pay-out and the negative impact of low interest rates on net interest margins. The stable outlook also assumes that the liability structure and probability of government support will remain broadly unchanged.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's could upgrade ABN AMRO's BCA and long-term ratings if (1) the bank's capitalisation were to improve materially further, including its regulatory Tier 1 leverage ratio, and (2) the bank concurrently reports stable earnings with a continuously low-risk profile.

ABN AMRO's deposit and senior unsecured debt ratings could also be upgraded as a result of a decrease in loss-given-failure, should they benefit from higher subordination than is currently the case.

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 they account for example 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.

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed A1, outlook remains Stable

....Short-term Bank Deposits, affirmed P-1

....Short-term Deposit Note/CD Program, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Long-term Issuer Ratings, affirmed A1, outlook remains Stable

....Baseline Credit Assessment, affirmed baa1

....Adjusted Baseline Credit Assessment, affirmed baa1

....Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook remains Stable

....Backed Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook remains Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)A1

....Subordinate Regular Bond/Debenture, affirmed Baa2

....Subordinate Medium-Term Note Program, affirmed (P)Baa2

....Preferred Stock Non-cumulative, affirmed Ba1(hyb)

....Commercial Paper, affirmed P-1

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook remains Stable

Issuer: ABN AMRO Funding USA LLC

..Affirmation:

....Backed Commercial Paper, affirmed P-1

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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