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ABN AMRO Bank N.V.

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ABN AMRO Bank N.V.

Major Rating Factors

Counterparty Credit Rating
A/Stable/A-1

Strengths:

- Good domestic market position
- Sound capital position
- Moderate credit and market risk profile, given focus on domestic retail and commercial banking
- Support by the Dutch state

Weaknesses:

- Remaining integration risk of the merger with Fortis Bank Nederland
- Less business and geographic diversification than larger universal banks
- Moderate profitability

Rationale

The ratings on ABN AMRO reflect our view of its good market position in Dutch banking, moderate credit risk profile, and sound capital position, combined with potential extraordinary support from the Dutch state. The ratings continue to be penalized by some execution risk linked to the integration of Fortis Bank Nederland N.V. (FBN), with which ABN AMRO merged on July 2010, and lower-than-peer profitability and business and geographic diversification.

The one notch of uplift above our assessment of ABN AMRO's stand-alone credit profile (SACP) reflects our expectation that the Dutch state would provide extraordinary support if needed, in particular during the transition period of the integration with FBN. We consider that ABN AMRO has high systemic importance in The Netherlands, a country we classify as "supportive" to its financial system. We see the Dutch state's full ownership of ABN AMRO as temporary, evidenced by the "exit policy state participation" the government released in January 2011. In this communication, the Dutch state reiterated its intention to privatize ABN AMRO in the medium term, possibly by 2014.

ABN AMRO is a leading player in the Netherlands, in particular in the retail and commercial banking markets. At year-end 2010, the bank had €380 billion in total assets, €261 billion in loans, and €192 billion of customer deposits (excluding security lending), largely concentrated in the Dutch market.

ABN AMRO's profitability has improved substantially since the third quarter of 2010, with an increase in underlying profits and a sharp fall in exceptional expenses. The bank posted a €414 million loss in 2010 stemming from €1.5 billion of exceptional costs linked to the merger with FBN. Underlying profits, which are close to our definition of core earnings, improved significantly to €1.1 billion in 2010, with a positive pattern over the year, but against a low base in 2009. ABN AMRO benefited in 2010 from improved net interest income coming from moderate lending volumes and a lower cost of funding, contained overhead expenses (excluding integration and merger costs), and a sharp decline in cost of risk. The favorable trends continued in the first quarter of 2011, when the bank posted a €0.6 billion after-tax profit. We expect profits to increase in full-year 2011 and in 2012, although

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at lower pace than in the first quarter of 2011, while remaining moderate.

We currently see ABN AMRO's funding and liquidity position as adequate, with a 138% loan-to-deposit ratio at year-end 2010. The bank strongly improved diversification and lengthened market resources in 2010-2011: ABN AMRO launched several secured and unsecured new debt issuance programs in 2009-2010 and issued €35 billion of long-term funding and RMBS in 2010-2011 to replace shorter term funding and maturing state-guaranteed debt. The bank also benefits from conservative liquidity risk management.

ABN AMRO presents a sound capital position in our view, with a risk-adjusted capital (RAC) ratio amounting to 8.8% before diversification adjustments and 10.0% after diversification adjustments on Dec. 31, 2010. The bank's regulatory capital ratios are also high; the core equity Tier 1 ratio was 11.3% on March 31, 2011. We expect the bank's capital position to remain stable over the next two years, with moderate business expansion being funded by improving retained earnings.

Outlook

The stable outlook on ABN AMRO reflects our view that we could increase the bank's SACP to the level of the current long-term counterparty credit rating in the next 12-24 months, assuming the integration's smooth execution. This includes the delivery of the announced cost synergies as estimated by ABN AMRO, and the potential for the bank to decrease its cost-to-income ratio below 65% by 2012. We also expect ABN AMRO to maintain its sound capital position, and to continue benefiting from support from its shareholder in case of need during this transition period.

We would consider a negative rating action in the unlikely case that ABN AMRO's SACP deteriorates significantly and durably--for instance due to higher credit losses or a more-difficult-than-expected integration process--and in the absence of support from the bank's shareholder.

We view an upgrade in the medium term as remote, given the gap between the level of the SACP and the long-term counterparty credit rating. Raising the rating would assume not only the continuation of a smooth integration process, but also an unexpectedly strong jump in the bank's earnings generation.

Profile: A Strong Local Player With Moderate Business And Geographic Diversification

ABN AMRO's business profile is good, supported by its very strong position in the Dutch retail and commercial banking markets. The bank has moderate business and geographic diversification, although better than that of solely domestic retail players. This is due to the size and the good franchise of its private banking activities, with €164 billion of assets under management at year-end 2010 and a presence in 15 countries. It is also involved in some niche corporate banking, operated internationally.

We consider that ABN AMRO's franchise in the Netherlands has benefited from its merger with FBN and has recovered to sound levels after the bad publicity linked to the former ABN AMRO take over in 2007, the difficulties encountered by the consortium owning ABN AMRO in 2008, and the uncertainties related to the break-up of the former ABN AMRO in 2009-2010. To implement its merger with FBN, ABN AMRO was required by the EC to dispose about 16 SME branches in the Netherlands and two subsidiaries. This disposal happened in April 2010 and, while it negatively impacted on its market position this remained manageable.

ABN AMRO is the third-largest bank in the Netherlands (see table 1), with a balance-sheet essentially generated by its Dutch activities. It ranks third in the Dutch retail market, with key competitive advantages in the affluent individual banking segment: it's second in SME lending and first in domestic private banking. It also remains a leading player in Dutch Corporate banking.

Table 1

The Largest Banks In The Dutch Market In 2010

Mil. €	ABN AMRO	SNS Bank	Rabobank	ING Bank
Total net customer loans*	261,416	65,013	455,941	636,894
Total customer deposits	192,309	37,880	350,100	519,304
Total consolidated assets	379,599	78,918	652,536	933,073
Total FTE	26,161	2,600	58,714	N.A.
Revenues domestic retail division	4,765	783	6,509	4,333
Pretax profit domestic retail division	1602	217	2,318	1,396
FTE Domestic retail division	11,132		27,322	N.A.
Number of domestic branches	508	143	911	N.A.

Sources: Standard & Poor's. FTE--Full time equivalent staff. Total consolidated figures are not fully comparable as Rabobank and ING Bank have large activities outside Netherlands. The scope of domestic retail division is also slighty different among banks: for instance, t includes domestic and international banking for ABN AMRO, but not the SME activities. *Net customer loans excluding allowance and reverse repos. N.A.--Not available.

ABN AMRO comprises two business segments, Retail and Private Banking (RPB), and Commercial and Merchant banking (CMB) and a group function division (see table 2). Retail banking activities have a narrower scope than most peers', essentially oriented to individuals while with SME and self-employed clients are served by the CMB division. ABN AMRO operates under its own network (which merged with that of FBN on Oct 2010) and through dedicated subsidiaries, in particular in mortgage lending. The RPB division also includes a niche diamond and jewelry lender (ID&JG). The CMB division encompasses the following customer segments: business banking, corporate clients, large corporate, and merchant banking. The bank benefits from a significant position in financing the energy, commodities and transportation sectors and in clearing activity. ABN AMRO Clearing covers 85 of the world's leading exchanges. It also covers non-exchange-listed investment instruments and alternative products such as over-the-counter derivatives or warrants.

Table 2

ABN AMRO BANK NV Key Metrics By Business Segments

	2010				2009			
Mil. €	Total	Retail and Private Banking	Commercial and Merchant Banking	Group function	Total	Retail and Private Banking	Commercial and Merchant Banking	Group function
Revenues	7,659	4,765	2,675	219	6,986	4,340	2,432	214
in %	100	62	35	3	161	100	56	5
After tax profit	1,077	1,191	172	(286)	142	665	43	(566)
in %	100	111	16	(27)	21	100	6	(85)
RWA	116,328	49,584	61,379	5,365	N.A.	N.A.	N.A.	N.A.
FTE	26,161	11,132	5,849	9,180	29,551	12,580	6,129	10,842
Cost to income in %	70	59	75	236	75	66	66	360

Table 2

ABN AMRO BANK NV Key Metrics By Business Segments (cont.)
Source: Standard & Poor's. Data are underlying profit and loss accounts as reported by ABN AMRO. FTE--full time equivalent staff number. RWA--Risk Weighted Assets. N.A.--Not available.

Legal demerger and legal separation of ABN AMRO Bank N.V. and EC state aid

The new ABN AMRO Bank N.V was established as a bank on Feb. 6, 2010, through the legal demerger of the former group ABN AMRO into businesses that the Dutch state acquired in October 2008 and other businesses that the Royal Bank of Scotland Group PLC (RBSG; A/Stable/A-1) acquired. In October 2008, as part of the dismantlement of the former bancassurance group, Fortis, the Dutch state took on the full ownership of FBN, including its stake in RFS holding B.V. (RFS). RFS was the holding company of the former group ABN AMRO, and under the Consortium Shareholder Agreement (CSA) implemented in October 2007, RFS shareholders were the indirect owners of identified businesses of the former ABN AMRO. The Dutch state acquired the Dutch activities of the former ABN AMRO (also named state acquired businesses).

As part of the February 2010 demerger, the former ABN AMRO was renamed The Royal Bank of Scotland N.V. (see related report) and most of the businesses acquired by the Dutch state, and related assets and liabilities, were simultaneously transferred to the new bank that was subsequently renamed ABN AMRO Bank N.V.

On April 1, 2010, the full ownership of the new ABN AMRO Bank N.V.'s equity was transferred to a holding company named ABN AMRO Group N.V., fully owned by the Dutch state. ABN AMRO Group N.V also became the full owner of FBN. The two sister banks merged in July 2010, and the resulting bank kept the name ABN AMRO Bank N.V.

The most important link that remains between ABN AMRO and RBS NV is the cross guarantee mechanism that exists on outstanding debt at the moment of the separation and up to maturity. We consider that this mechanism is not currently a rating factor for ABN AMRO given the sound creditworthiness of RBS NV, but it would represent a potential contingent liability for ABN AMRO in the unlikely case of a sharp fall in RBS N.V. rating.

In April 2009, the European Commission (EC) opened an investigation into alleged unlawful state aid in relation to the October 2008 purchase of FBN by the Dutch state. On Feb. 8, 2010, the EC temporarily approved the additional recapitalization package announced by the state at the end of 2009 (€6.9 billion) in favor of ABN AMRO and FBN as an urgent rescue package. The EC also extended its investigation of ABN AMRO and the recapitalization package. On April 5, 2011, the EC released the outcome of this investigation, which involved an approbation of the support package, subject to certain conditions--in particular a restriction on acquisitions. We see this outcome as consistent with our former expectation that the EC decision would not materially affect ABN AMRO's business position or financial profile.

Support And Ownership: A Systemically Important Bank, Temporarily Government-Owned

ABN AMRO Bank NV is fully owned by the Dutch government through its holding company ABN AMRO Group N.V. Dutch banking authorities apply their prudential supervision to ABN AMRO Bank NV at the level of the ABN AMRO Group N.V, in particular regarding capital ratio requirements.

We do not consider ABN AMRO a government-related entity (GRE) under our new criteria because we understand that the period of state ownership will be limited. The notch of support reflects our view of the bank's systemic importance for the Netherlands.

Strategy: Aiming For Integration, Efficiency, And Cautious Expansion To Prepare For State Exit

We consider that the bank's management has delivered some significant milestones in the last 15 months. Achievements have included the legal separation, the implementation of the new bank organization in first-half 2010, the merger with FBN, and the integration of retail activities in October 2010.

When compared with more established peers, we view ABN AMRO's strategy as still constrained by being in transition, a time-consuming period for management. Also, the bank in its current format does not benefit from a long track record. However, we recognize that execution risks linked to the separation and the merger have strongly declined. We also see ABN AMRO's management team as professional, competent, and well-armed to address the bank's remaining strategic challenges.

Management has some short-term priorities. One is to finalize the integration of FBN activities, in particular the transfer of all corporate clients to one platform, which should take place before end-2011. Another is to prepare for the exit of the state shareholder, likely by an IPO as early as 2014. As such, the bank is aiming to show a track record of adequate profit but it does not want to target an aggressive return on equity. The bank's medium-term strategy is to preserve its moderate risk profile, reducing operating costs--targeting a 60%-65% cost to income by 2012--while strengthening its franchise in the Dutch banking sector.

The CMB division was the most affected by the separation from RBS. ABN AMRO is progressively rebuilding an international network to serve its export-oriented clients abroad and to offer plain-vanilla capital market products to its clients. The bank expects such activities will become a growth area, while remaining contained. In commercial banking, the strategy is to provide simple products to customers and to enhance its relationship banking model, while carefully managing costs and asset quality.

The retail banking segment will continue targeting the mass affluent segment and customers likely to transition to this segment, while improving efficiency, reducing the cost base, and carefully managing asset quality.

The private client segment will continue to target high and ultra high net worth clients in the Netherlands and more widely in Europe and Asia with an increased focus on cost control and risk management.

Risk Profile: A Moderate Risk Profile And Adequate ERM

We view ABN AMRO's risk profile as moderate. The bank's focus is on Dutch business and it has no significant investment and wholesale banking operations or any exposure to emerging markets or riskier structured securities.

ABN AMRO's risk profile is dominated by credit risk, which is mostly concentrated in the Netherlands. The focus on retail activities means that the bank bears some non-negligible structural interest rate risks, including modeling risk linked to asset-liability management (ALM) assumptions on deposits. Its funding position is adequate. The operational risk is also significant given the ongoing integration process, the size of private banking activities, and the existence of specific niches such as clearing.

Enterprise Risk Management: Adequate, With Sound Practices And Sophisticated Tools

We view ABN AMRO's enterprise risk management as adequate. It combines sound practices and sophisticated tools inherited from, in particular, the former ABN AMRO, which we viewed as having strong ERM. In its new incarnation, however, it does have some remaining organizational and operational difficulties linked to the need to recreate a full risk infrastructure for a new legal organization. That said, we consider that ABN AMRO's ERM has benefited from the long and cautious preparation of the separation and merger. The bank's risk organization appears adapted to its new profile, including a simpler legal organization with a limited presence abroad or in complex activities. The bank's ERM benefits also from a moderate risk appetite and good governance and level of public disclosure.

Credit risk

ABN AMRO's asset quality is good, in our view, with a loan portfolio dominated by low-risk mortgage lending and a concentration in the Dutch economy. Cost of risk declined sharply in 2010, after being high in 2009 and much higher still in 2008 (under our proforma figures). It rose in the first quarter of 2011 from the same period in 2010, but remained well below what it had been in fourth-quarter 2010. We expect cost of risk in 2011 will remain close to that of 2010, with the lagging effect of the 2009-2010 recession on retail and small business activities, and a moderate decline in 2012. This cost of risk level appears moderate (below 35 bps to average loans) when compared to peers.

The bulk of ABN AMRO's €460 billion credit exposure at year-end 2010 was the customer loans portfolio (60%) and related off-balance credit commitments (22%), with interbank loans and financial investments comprising a further 12%. The loan portfolio is 90% focused on the Netherlands and is dominated by low risk mortgages (see table 2). The commercial portfolio is granular, with no large corporate client and moderate sector concentration: the three largest sectors are financial services, real estate, and food and beverage, representing 13%, 10%, and 7% of the gross customer loans, respectively, excluding banks and private individuals. Financial investments are essentially high quality government bonds hold as part of the liquidity buffer of the bank.

ABN AMRO benefits from strong underwriting policies and sophisticated monitoring tools, in particular the computation of probability-of-default and loss-given-default parameters to move to an advanced approach under Basel II. The individual credit limits set on loss at default are monitored monthly, with a specific single name cap per relationship. The bank has fixed limits, by industry, expressed in relation to economic capital to avoid concentration. This is complemented by some absolute limits on some specific portfolios such as leveraged finance. For standard loans granted to consumers and small enterprises, ABN AMRO has lending programs that contain standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk and rewards of those portfolios.

Table 3

ABN Amro Bank N.V. Loan Portfolio Breakdown And Allowance By Customer Type

Mil. €	2010	2009	2008*
Total gross customer loans	280,041	284,850	276,772
Public Sector	3,259	4,036	3,162
Commercial loans	82,346	86,405	89,645
Consumer loans	175,515	175,463	173,567

Table 3

ABN Amro Bank N.V. Loan Portfolio Breakdown And Allowance By Customer Type (cont.)			
Consumer loan Mortgage	161,305	161,205	159,884
Other consumer lending	14,210	14,258	13,683
Professionnal securities transactions	14,339	14,819	8,345
Lease & factoring	1,702	1,716	2,053
Fair value adjustment	2,880	2,411	
Allowance for impairement	4,286	4,121	3,083
Of which commercial loans	3,671	3,476	2,521
Of which consumer loans	613	643	484
Net customer loans**	261,416	265,910	265,344
Gross Impaired loans	8,669	8,231	5,744
gross Impaired loans in % total **	3.26	3.05	2.14
Of which commercial loans	8.12	7.39	4.53
Of which consumer loans	1.13	1.05	0.88
of w mortgage	0.77	0.77	0.64
Coverage of impaired loans by allowance%	49.4	50.1	53.7
Of which commercial loans	54.9	54.5	62.1
Of which consumer loans	30.9	34.8	31.9
of which mortgage	21.1	18.1	0.0
Cost of risk in mil.	837	1585	2079
cost of risk excluding Madoff	837	1585	1103
cost of risk to net loan excluding Madoff (%)¶	0.32	0.60	0.42

Source: Standard & Poor's. *Proforma data established by Standard & Poor's by suming up ABN AMRO and FBN financial data. **Excluding securities transactions. ¶FBN posted a €0.9 billion impairment to nearly fully cover its Madoff exposure in 2008. This amount has remained in the impaired commercial loans.

The proforma-reported cost of risk for 2008, as calculated by Standard & Poor's, included an exceptionally large amount linked to the Madoff fraud, posted by FBN. The related business line was subsequently sold by FBN, as part of a strategic revision, but the file remained in impaired loans. After a sharp increase in 2009, impaired loans stabilized in 2010. The moderate coverage of impaired loans by reserve reflects the importance of the collateral used by ABN AMRO, in particular for mortgage lending, and we see it as adequate.

Market risk

ABN AMRO has limited market risk, primarily interest rate risk in the banking book (IRRBB). The Financial Markets desk is small, presently, but even as it develops we expect the appetite for proprietary trading will stay minimal, with the bulk of activities client driven. The VAR (one day, 99%) averaged €4.9 million in 2010. ALM is not considered a profit-center but, rather, a support function to hedge commercial activities. ABN AMRO's structural interest rate risk in the banking book (IRRBB) comes mainly from the difference in indexation between short-term indexed customer deposits and mortgage lending where the coupon is generally fixed for a multi-year period. ABN AMRO covers its related risks above its limits with swaps. Risk is measured by computing net interest income at risk, and the duration and VAR of the banking book.

Funding and liquidity risk

ABN AMRO's funding and liquidity position is adequate. The bank benefits from a large deposit base due to its strong presence in retail, small business, and private banking. However, the size of the mortgage portfolio, including the part that has been originated through brokers or in conjunction with the insurance activities of the former Fortis group, means that the bank depends on wholesale funding, unsecured funding, and RMBS and covered bonds. Positively, the latter instruments issued by Dutch banks have remained attractive to investors. Thanks to strong issuance activity over 2010 and first-half 2011--plus liability management such as the reimbursement of some state-guaranteed debt and contained growth in assets--the bank has largely absorbed the negative impact of the merger with FBN. The latter had an unfavorable loan-to-deposit ratio and a reliance on short-term funding.

The bank's liquidity management combines ongoing indicators: loan-to-deposit ratio (134.9% at year-end 2010, stable funding over a non-liquid asset and survival period, and contingency risk management with regular stress tests and maintenance of a large liquidity buffer to access ECB funding (€48 billion at year-end 2010).

Accounting Section

We base our current analysis on the consolidated financial statements of ABN AMRO group N.V., as that of ABN AMRO Bank N.V. are not available. Given that ABN AMRO Group N.V. has no other asset than its stake in ABN AMRO Bank N.V. and no debt in its unconsolidated accounts, the ABN AMRO Bank NV financial accounts would be identical to that of ABN AMRO Group NV.

The consolidated annual 2010 financial statements we use in our analysis include the results of ABN AMRO Bank N.V. for the full annual period ended Dec. 31, 2010, as if the combination of ABN AMRO Group and ABN AMRO Bank has existed in its current form, and as if FBN and ABN AMRO Bank had been together from Jan. 1, 2010. Comparative unaudited information has been included for 2009.

Starting 2008, the former ABN AMRO adapted its reporting by business units to reflect the allocation of its activities among each consortium member according to the Consortium Shareholder Agreement. While such proforma financial statements are useful to give some estimated comparison in time, in particular regarding the lending book, we consider we can not use them for a detailed financial analysis due to changes in scope of businesses and in accounting presentation. Since 2005, both the former ABN AMRO and FBN have prepared their accounts in accordance with IFRS.

Profitability: Improving But Remains Moderate

ABN AMRO's underlying profitability improved over 2010 and should continue to do so in 2011-2012, thanks to moderate business expansion and the first benefit of cost saving linked to the merger. Reported profitability should be closer to underlying profits in 2011-2012 with much reduced integration costs. Despite improvement, we expect ABN AMRO profitability to remain moderate, and lower than many European peers with lower interest income margin and fees, and still relatively high operating expenses. We expect our core earning to revenues ratio to stand around 20% in 2011-2012, from 15% in 2010.

The profitability of each component of the bank---FBN and the state-acquired businesses of the former ABN AMRO--was under strong pressure from end-2008 to second-quarter 2010 due the combination of a difficult operating environment, expenses linked to the break-up from the larger group they went through, and the exceptional costs linked to the preparation of the merger, including the cost of selling some commercial banking activities to comply with EC requirements to allow the merger (the EC remedy). However, after a low point in second-quarter 2010, the new bank's profitability has been improving (see table 4).

Table 4

ABN AMRO BANK NV reported and Underlying Profit and Loss Statments

	Growth rate Q1 2011, from Q1 2010 (%)	Growth rate 2010/2009 (%)	Q1 2011	2010	H1 2010	2009	H1 2009
Reported							
Revenues	10.7	(7.5)	2,032	6,797	2,837	7,349	3,845
Operating expenses	(11.0)	12.3	1,236	6,229	3,390	5,549	2,550
Cost of risk	58.2	(47.2)	125	837	348	1,585	772
After tax consolidated profit	115.6	(251.1)	539	(414)	(968)	274	420
Cost to income (%)			60.8	91.6	119.5	75.5	66.3
Cost of risk/revenues (%)			6.2	12.3	12.3	21.6	20.1
Underlying							
Revenues	10.7	9.6	2,032	7,659	3,649	6,986	3,482
Operating expenses	(9.8)	1.8	1,176	5,335	2,744	5,239	2,472
Cost of risk	58.2	(47.2)	125	837	348	1,585	772
After tax consolidated profit	85.7	658.5	583	1,077	325	142	207
Cost to income			57.9	69.7	75.2	75.0	71.0
Cost of risk/revenues			6.2	10.9	9.5	22.7	22.2

Sources: Standard & Poor's

NII improved significantly in 2010 on reduced competitive pressure combined with declining market rates, which lessened funding costs. We expect NII will come under some pressure again, but less so, in the second and subsequent quarters of 2011, with the market-rate increase that will be passed on quicker on deposit yields than it will be passed on new lending conditions, due to competitive pressure. The lending volume should remain moderate and should not compensate for declining margins. NII in 2011 should also benefit from lower interest expenses on hybrid capital instruments that were reimbursed or reached their conversion date. Costs should continue to decline moderately. There should still be some exceptional expenses linked to the integration but off-set by ongoing synergy gains and overall cost control efforts. Pressure to improve cost-to-income ratios will be greater in the CMB division where the bank intends to rebuild some capacities, and should not materialize before 2012. We expect the bank's cost to income to fall below 65% in 2012.

Capital: A Relative Strength

We view ABN AMRO's capital position as sound. It has strong capital ratios under our own RAC ratio measure and under regulatory ratios, but has moderate financial flexibility compared with large, global peers. We expect this will remain unchanged over the next few years.

The bank has set the principle of a 40% pay-out ratio on its profit. Given the improvement in earnings and the moderate growth in assets we factor into our rating, we expect that ABN AMRO will be able to maintain its sound capital position. We expect in particular our RAC before diversification to remain above 8% in 2011.

Our total adjusted capital (TAC) is very close to the bank's tier one ratio. We accept €3.1 billion of hybrid capital instruments in our TAC, being essentially the €1 billion tier one instrument and €1.7 billion of Mandatory Convertible Securities (MCS), both accepted as intermediary strong hybrid instruments under our criteria. MCS were supposed to convert to equity in December 2010, but due to a legal dispute between the Dutch state and Ageas, the former owner of FBN, this conversion could not take place as planned. The instrument has remained in the total subordinated debt of ABN AMRO and has kept its capital feature, being perpetual, subordinated with no more coupons to be paid. It is now missing the short-term mandatory conversion in equity that justified its former qualification as high-equity content under our criteria.

Table 5

ABN AMRO Bank N.V. Risk-Adjusted Capital Framework

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	27,826	650	2	1,361	5
Institutions	34,783	8,588	25	6,945	20
Corporate	92,407	50,788	55	61,454	67
Retail	144,473	30,100	21	40,843	28
Of which mortgage	114,196	0	0	21,697	19
Securitization	38,215	4,638	12	23,920	63
Other assets	4,907	3,150	64	4,579	93
Total credit risk	342,611	97,913	29	139,101	41
Market risk					
Equity in the banking book¶	665	1,663	293	5,423	815
Trading book market risk	--	2,613	--	4,388	--
Total market risk	--	4,275	--	9,810	--
Insurance risk					
Total insurance risk	--	--	--	6,300	--
Operational risk					
Total operational risk	--	14,463	--	16,265	--
(Mil. €)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		116,650		171,476	100
Total adjustments to RWA		--		-21,762	(13)
RWA after diversification		116,650		149,714	87
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		14,834	12.7	15,029	8.8
Capital ratio after adjustments§		14,834	12.8	15,029	10.0

*Exposure at default. Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Table 6

ABN AMRO Bank N.V. Profitability Ratios

	--Year-ended Dec. 31--	
(%)	**2010**	**2009**
Net interest income/average earning assets	1.3	1.6
Net interest income/revenues	64.0	61.1
Fee income/revenues	23.1	27.7
Market-sensitive income/revenues	8.3	4.9
Personnel expense/revenues	37.2	38.5
Noninterest expenses/revenues	67.2	73.4
New loan loss provisions/revenues	10.9	22.7
Net operating income before loan loss provisions/loan loss provisions	300.4	117.4
Net operating income after loan loss provisions/revenues	21.9	3.9
Pretax profit/revenues	(3.5)	3.1
Tax/pretax profit	(53.9)	(27.4)
Core earnings/revenues	16.5	3.7
Core earnings/average adjusted assets	0.3	0.1
Noninterest expenses/average adjusted assets	1.3	1.8
Core earnings/average risk-weighted assets	N.M.	0.6
Core earnings/average adjusted common equity	12.3	3.2
Pretax profit/average common equity (%)	(2.6)	2.8

*The financial statements used for ABN AMRO Bank N.V. are the consolidated financial statements of ABN AMRO Group, the holding company of ABN AMRO Bank N.V. On April 1, 2010, some important transactions related to the separation from the former RBS Holding NV, took place and ABN AMRO Group also acquired full ownership of Fortis Bank (Nederland) N.V. (FBN). ABN AMRO Bank N.V. and FBN merged on July 1, 2010. ABN AMRO Group's consolidated annual financial statements include the results of ABN AMRO Bank N.V. for the full annual period ended Dec. 31, 2010, as if the combination of ABN AMRO Group and ABN AMRO Bank has existed in its current form, and as if FBN and ABN AMRO Bank have been together as from Jan. 1, 2010. Comparative information has been included for 2009. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

ABN AMRO Bank N.V. Capital Ratios

	--Year-ended Dec. 31--	
(%)	**2010**	**2009**
Adjusted common equity/risk assets (%)	N.M.	N.M.
Tier 1 capital ratio	12.8	N/A
Adjusted total equity/adjusted assets	3.8	2.7
Adjusted total equity/managed assets	3.8	2.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	7.0	5.3
Common dividend payout ratio	0.0	0.0

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 8

ABN AMRO Bank N.V. Summary Balance Sheet

	--Year-ended Dec. 31--	
(Mil. €)	**2010**	**2009**
Assets		
Cash and money market instruments	56,362.0	64,249.0

Table 8

ABN AMRO Bank N.V. Summary Balance Sheet (cont.)		
Securities	44,497.0	41,105.0
Trading securities (marked to market)	24,668.0	20,960.0
Nontrading securities	19,829.0	20,145.0
Mortgage-backed securities included above	N/A	N/A
Loans to banks (net)	N/A	N/A
Customer loans (gross)	265,702.0	270,031.0
Loan loss reserves	4,286.0	4,121.0
Customer loans (net)	261,416.0	265,910.0
Earning assets	361,468.0	369,815.0
Equity interests/participations (nonfinancial)	1,061.0	601.0
Investments in unconsolidated subsidiaries (financial companies)	98.0	374.0
Intangibles (nonservicing)	412.0	472.0
Interest-only strips	N/A	N/A
Fixed assets	1,679.0	1,937.0
Derivatives credit amount	N/A	N/A
Accrued receivables	4,169.0	3,532.0
All other assets	9,905.0	8,344.0
Total assets	379,599.0	386,524.0
Intangibles (nonservicing)	412.0	472.0
Minus insurance statutory funds	N/A	N/A
Adjusted assets	379,187.0	386,052.0
Liabilities		
Total deposits	213,845.0	240,605.0
Noncore deposits	21,536.0	37,387.0
Core/customer deposits	192,309.0	203,218.0
Acceptances	N/A	N/A
Repurchase agreements	18,968.0	7,530.0
Other borrowings	72,026.0	62,941.0
Other other borrowings	51,294.0	40,109.0
Other credit reserves	N/A	N/A
Other liabilities	39,998.0	46,850.0
Total liabilities	364,564.0	374,619.0
Total equity	15,035.0	11,905.0
Manditorily convertible securities	N/A	2,000.0
Limited life preferred and quasi equity	173.0	950.0
Enhanced trust preferred	N/A	N/A
Minority interest-equity	13.0	222.0
Common shareholders' equity (reported)	11,889.0	8,523.0
Share capital and surplus	805.0	N/A
Revaluation reserve	(791.0)	(914.0)
Retained profits	(417.0)	272.0
Other equity	N/A	N/A

Table 8

ABN AMRO Bank N.V. Summary Balance Sheet (cont.)		
Total liabilities and equity	379,599.0	386,524.0

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 9

ABN AMRO Bank N.V. Equity Reconciliation Table		
	--Year-ended Dec. 31--	
(Mil. €)	2010	2009
Common shareholders' equity (reported)	11,889.0	8,523.0
Plus minority interest (equity)	13.0	222.0
Minus dividends (not yet distributed)	0.0	0.0
Minus revaluation reserves	791.0	914.0
Minus nonservicing intangibles	(412.0)	(472.0)
Minus interest-only strips (net)	N/A	N/A
Minus tax loss carryforwards	(252.0)	(136.0)
Minus postretirement benefit adjustment	(132.7)	(308.9)
Minus cumulative effect of credit-spread related revaluation of liabilities	0.0	0.0
Minus other adjustments	N/A	N/A
Adjusted common equity	11,896.3	8,742.1
Plus admissible preferred and hybrids	3,133.0	3,160.0
Total Adjusted Capital	15,029.3	11,902.1
Plus general reserves	0.0	0.0
Plus unrealized gains	N/A	N/A
Minus equity in unconsolidated subsidiaries	(98.0)	(374.0)
Minus capital of insurance subsidiaries	(504.0)	(374.0)
Minus adjustment for securitized assets	(86.0)	(900.0)
Adjusted total equity	14,341.3	10,254.1

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 10

ABN AMRO Bank N.V. Profit And Loss		
	--Year-ended Dec. 31--	
(Mil. €)	2010	2009
Net interest income	4,905.0	4,268.0
Interest income	12,952.0	15,035.0
Interest expense	8,047.0	10,767.0
Operating noninterest income	2,754.0	2,718.0
Fees and commissions	1,766.0	1,933.0
Net brokerage commissions	585.0	577.0
Trading gains	304.0	139.0
Other market-sensitive income	330.0	203.0
Net insurance income	N/A	N/A
Equity in earnings of unconsolidated subsidiaries	91.0	94.0
Other noninterest income	263.0	349.0

Table 10

ABN AMRO Bank N.V. Profit And Loss (cont.)		
Operating revenues	7,659.0	6,986.0
Noninterest expenses	5,145.0	5,126.0
Personnel expenses	2,846.0	2,690.0
Other general and administrative expense	1,953.0	2,168.0
Preprovision operating income	2,514.0	1,860.0
Credit loss provisions (net new)	837.0	1,585.0
Operating income after loss provisions	1,677.0	275.0
Nonrecurring/special income	N/A	363.0
Nonrecurring/special expense	1,756.0	310.0
Amortization of intangibles	54.0	0.0
Impairment of intangibles	136.0	113.0
Pretax profit	(269.0)	215.0
Tax expense/credit	145.0	(59.0)
Net income (before minority interest)	(414.0)	274.0
Minority interest in consolidated subsidiaries	3.0	2.0
Net income before extraordinaries	(417.0)	272.0
Net income after extraordinaries	(417.0)	272.0

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 11

ABN AMRO Bank N.V. Core Earnings Reconciliation Table		
	--Year-ended Dec. 31--	
(Mil. €)	**2010**	**2009**
Net income (before minority interest)	(414.0)	274.0
Minus nonrecurring/special income	0.0	(363.0)
Plus nonrecurring/special expense	1,756.0	310.0
Plus or minus tax impact of adjustments	(265.0)	(79.0)
Plus amortization/impairment of goodwill/intangibles	190.0	113.0
Minus preferred dividends	0.0	0.0
Plus or minus other earnings adjustments	N/A	N/A
Core earnings	1,267.0	255.0

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Related Criteria And Research

- Improved Market Conditions And Ongoing Restructuring Should Help Dutch Banks Exit From Government Support, March 29, 2011
- Principles Of Corporate And Government Ratings, June 26, 2007
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings Detail (As Of July 29, 2011)*	
ABN AMRO Bank N.V.	
Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	A-1
Junior Subordinated (2 Issues)	B
Senior Secured (16 Issues)	AA-
Senior Unsecured (23 Issues)	A
Short-Term Debt (4 Issues)	A-1
Subordinated (12 Issues)	A-
Counterparty Credit Ratings History	
25-Jun-2010	A/Stable/A-1
05-Feb-2010	A+/Negative/A-1
Sovereign Rating	
Netherlands (State of The) (Unsolicited Ratings)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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