

September 5, 2011

## Research Update:

# ABN AMRO Bank's Hybrid Debt Ratings Raised To 'BB+' On Lower Risk Of Coupon Deferral

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## Overview

- Netherlands-based ABN AMRO Bank announced an interim dividend on ordinary shares this year that will trigger the next hybrid coupon payment in 2012.
- We believe the bank's earnings generation capacity has improved, also significantly reducing the risk of coupon deferral in 2013.
- We are raising our rating on the two hybrid instruments to 'BB+'.

## Rating Action

On Sept. 5, 2011, Standard & Poor's Ratings Services raised its junior subordinated debt ratings to 'BB+' from 'B' on £149 million in Upper Tier 2 securities and on a €1 billion Tier 1 instrument issued by Dutch bank ABN AMRO Bank N.V. (A/Stable/A-1).

## Rationale

Standard & Poor's sees a significantly lower risk of coupon deferral on ABN AMRO's hybrid capital instruments since the bank announced it would pay an interim dividend this year and because of our view of the bank's improving earnings performance. On Aug. 26, 2011, ABN AMRO announced plans to pay a €200 million interim dividend this year on its ordinary shares and paid it out on Sept. 1.

The 'BB+' ratings on both instruments now stand five notches below our 'A' long-term issuer credit rating (ICR) and four notches below our stand-alone credit profile (SACP) on ABN AMRO. This reflects our view that the bank's risk of coupon deferral is still higher than for better-performing banks, given the EU's ban on its hybrid coupon payments and the fact that the bank's SACP is still lower than its ICR. According to our criteria, the SACP is the key indicator of potential pressure to defer payments on hybrid securities. The 'BB+' ratings on the securities include one notch for extraordinary government support.

Last year, the EC imposed a ban on ABN AMRO's coupon payments up to March 2013 for its Tier 1 and Tier 2 instruments, unless there was a legal obligation to do so. There is such an obligation under the terms of the Tier 1 and Upper Tier 2 issues, where an ordinary share dividend payment on the bank or its holding company would push coupon payments on the issues into the next 12-month period, unless the bank is in breach of regulatory capital ratios.

On April 5, 2011, the European Commission made no reference to hybrid capital instruments when it released the outcome of its State Aid investigation into ABN AMRO, with an approbation of the support package, subject to certain conditions, in particular a ban on acquisitions. However, we understand that while the EC still in principle holds to the ban on hybrid coupon payments up to the 2013 coupon payment dates, it has no opposition to ABN AMRO paying an ordinary dividend if it is a minimum €100 million and if it is consistent with the bank's improved financial situation.

ABN AMRO's interim dividend in our view is in line with its already announced general ordinary share dividend. The bank targets a payout of 40% of reported annual profit. ABN AMRO posted a €864 million reported profit for first-half 2011.

Despite an improving trend, we consider that ABN AMRO's profitability will remain below that of comparable peers in 2011-2012. However, we expect that reported net profit should be compatible with the likely payment of some ordinary dividend in 2012. This would reduce the risk of coupon suspension for 2013 under the EC ban. We also see that a coupon suspension is very unlikely because of a breach of regulatory capital ratios. That's because ABN AMRO's ratios are currently high, with the Tier 1 ratio at 13.9% on June 30, 2011. In addition, we expect the bank's capital position to stabilize over the coming two years.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

### Related criteria

- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Franchise Stability, Confidence Sensitivity, And The Treatment Of Hybrid Securities In A Downturn, Dec. 1, 2008

### Related research

- ABN AMRO Bank N.V. Upper Tier 2 Instrument Upgraded To 'B' On Lower Risk Of Coupon Suspension, March 10, 2011
- ABN AMRO Bank N.V., July 29, 2011

## Ratings List

Upgraded

	To	From
ABN AMRO Bank N.V. Junior Subordinated	BB+	B

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