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## Research Update:

# ABN AMRO Long-Term Rating Raised To 'A+' On Bank Criteria Change; On CreditWatch Negative On Sovereign Rating Action

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## Research Update:

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## Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have raised our long-term counterparty credit rating to 'A+' from 'A' and affirmed our 'A-1' short-term rating on Netherlands-based ABN AMRO Bank N.V.
- On Dec. 5, 2011, we placed the long-term ratings on the State of The Netherlands on CreditWatch with negative implications. As a result, we are also placing the long-term ratings on ABN AMRO on CreditWatch negative, including the issue ratings on debt guaranteed by the Dutch state.
- The ratings on ABN AMRO factor in our 'a-' anchor for banks operating exclusively in The Netherlands and our view of ABN AMRO's adequate business position, adequate capital and earnings, adequate risk position, average funding, and adequate liquidity, as our criteria define these terms.
- The long-term rating on ABN AMRO benefits from two notches of uplift for potential extraordinary government support in a crisis.
- In addition, we raised the ratings on ABN AMRO's hybrid capital instruments to 'BBB-' from 'BB+' and we lowered the ratings on its nondeferrable subordinated debt to 'BBB+' from 'A-' under our revised bank hybrid capital methodology.
- We expect to resolve the CreditWatch placement on ABN AMRO within four weeks of resolving the CreditWatch on The Netherlands.

## Rating Action

As previously announced on Dec. 8, 2011, Standard & Poor's Ratings Services raised its long-term counterparty credit rating on Netherlands-based ABN AMRO Bank N.V. to 'A+' from 'A'. The 'A+' rating on ABN AMRO was subsequently placed on CreditWatch with negative implications. The 'A-1' short-term counterparty credit rating was affirmed.

We also raised the issue ratings on ABN AMRO's hybrid capital instruments to 'BBB-' from 'BB+'. We lowered the issue ratings on its nondeferrable subordinated debt to 'BBB+' from 'A-'.

## Rationale

The upgrade of ABN AMRO and its senior debt reflects the application of our new bank methodology. The negative CreditWatch placement on ABN AMRO's long-term rating and senior debt reflects the possibility that we could remove one notch of government support if the sovereign rating on The Netherlands were lowered by one notch.

The ratings on ABN AMRO reflect its 'a-' anchor and our view of ABN AMRO's "adequate" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms.

The ratings also factor in ABN AMRO's "high" systemic importance in The Netherlands, in accordance with our criteria.

We assess ABN AMRO's stand-alone credit profile (SACP) at 'a-'.

The 'a-' anchor for ABN AMRO draws on our Banking Industry Country Risk Assessment (BICRA) methodology. It reflects our assessment of the industry risk of The Netherlands and our view of the weighted average economic risk in the countries in which ABN AMRO operates, based on the geographic distribution of its customer lending, which is split between The Netherlands (85%) and the rest of the world (15%). The economic risk score for The Netherlands is '2' on a scale of 1-10 (1 is the lowest risk and 10 is the highest); ABN AMRO's weighted score is close to that level. Our industry risk score on the Netherlands is '3' on a scale of 1-10. The Dutch banking industry is dominated by three large players. ABN AMRO, along with ING Bank, is one of the two which have been subject to material restructurings as a result of state aid that they had received. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save into life insurance and pension products.

Our assessment of ABN AMRO's business position as "adequate" reflects the dominance of relatively stable activities in its business mix (domestic retail and commercial banking activities, and private banking), supported by sound market positions. We consider that ABN AMRO has less business and geographic diversification than other large universal banks with similar industry risk, but its diversification is average relative to the Dutch banking industry. We view ABN AMRO's management team as professional and competent and the bank's strategy as sound and conservative. However, we consider also that ABN AMRO's strategy is still constrained to a degree because it's in a transition period with regard to finalizing the integration of Fortis Bank Nederland. In addition, ABN AMRO in its current format does not benefit from the same track record as more established peers.

We view ABN AMRO's capital and earnings as "adequate" based on our expectation that the bank's risk-adjusted capital (RAC) ratio before diversification should remain in the 7.5% to 8% range in the two coming years. Our pro forma

RAC ratio at year-end 2010 had been substantially reduced by the exclusion of €1.2 billion in hybrid capital instruments with step-ups from our calculation of total adjusted capital (the numerator of our RAC ratio), and to a lesser extent, by the higher capital requirement linked to our change in the economic risk score of The Netherlands to '2' from '1'.

Our assessment of ABN AMRO's risk position as "adequate" incorporates our view that the bank's risk management and exposure are in line with its domestic industry and that risks are well captured by our RAC framework. We expect only limited change in ABN AMRO's loan and risk exposure, with an emphasis on moderate organic growth, and containment of market risk-weighted assets. ABN AMRO doesn't yet have a consistent track record under its new profile, but its credit experience appears in line with domestic peers' and many international peers'.

Our view of ABN AMRO's "average" funding factors in a large customer deposit base and restored access to the domestic and international capital markets, partly off set by some reliance on wholesale markets (in particular to residential mortgage-backed securities and covered bonds). ABN AMRO has strongly improved its funding situation since the end of 2009 by issuing longer-term unsecured debt. With a loan-to-deposit ratio of 120% at end-June 2011, ABN AMRO stands a bit less favorable than peers. It's not an outlier, in our opinion, and is in line with our view of Dutch banking industry risk under our BICRA. The bank's business mix means that it benefits from a large proportion of stable retail and private banking deposits.

Our opinion of ABN AMRO's "adequate" liquidity factors in prudent liquidity management. The latter includes the monitoring of stable funding over nonliquid assets, a survival period, contingency risk management with regular stress tests, and maintenance of a large liquidity buffer to access European Central Bank funding (€43 billion on Sept. 30, 2011).

The long-term rating is two notches higher than the SACP, reflecting ABN AMRO's "high" systemic importance in The Netherlands and our assessment of the Dutch government as "supportive" to its banking sector, under our criteria.

We rate ABN AMRO's two hybrid capital instruments three notches below the bank's SACP to reflect the higher risk of coupon deferral in the context of the European Commission's ban on hybrid coupons until 2012. In the event that ABN AMRO reports a loss that would prevent it from distributing an ordinary dividend, this risk would materialize.

We rate the nondeferrable debt of ABN AMRO and other Dutch institutions by notching down once from the SACP, in anticipation of the implementation of a resolution regime in The Netherlands in the near term.

## CreditWatch

We intend to resolve the CreditWatch placement within four weeks of any associated resolution of the CreditWatch on The State of Netherlands. ABN AMRO's long-term rating is two notches higher than the SACP based on government support. If the sovereign rating is lowered by one notch, we would lower the long-term rating on ABN AMRO by one notch, all other things being equal. If the sovereign rating is affirmed, we would likely affirm the ratings on ABN AMRO.

## Ratings Score Snapshot

Issuer Credit Rating	A+
SACP	a-
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and adequate (0)
Support	+2
GRE Support	0
Group Support	0
Sovereign Support	+2
Additional Factors	0

## Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Sharing The Burden Of Bank Support: Countries Where Subordinated Debt Is Becoming Riskier, Nov. 29, 2011
- BICRA On The Netherlands Revised To Group '2' From Group '1', Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Upgraded; CreditWatch; Ratings Affirmed

	To	From
ABN AMRO Bank N.V.		
Long-Term Counterparty Credit Rating	A+/Watch Neg	A/Stable
Short-Term Counterparty Credit Rating	A-1	A-1

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Certificate Of Deposit Local Currency	A+/Watch Neg/A-1	A/A-1
Upgraded	To	From
ABN AMRO Bank N.V. Junior Subordinated (2 issues)	BBB-	BB+
Upgraded; CreditWatch/Outlook Action	To	From
ABN AMRO Bank N.V. Certificate Of Deposit Foreign Currency	A+/Watch Neg	A
ABN AMRO Bank N.V. Senior Unsecured (20 issues)	A+/Watch Neg	A
Downgraded	To	From
ABN AMRO Bank N.V. Subordinated (10 issues)	BBB+	A-
Ratings Affirmed		
ABN AMRO Bank N.V.  Certificate Of Deposit (1 issue) Commercial Paper (3 issues)	A-1 A-1	
ABN AMRO Funding USA LLC Commercial Paper (2 issues)	A-1	

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