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Research Update:

Ratings On ABN AMRO Bank Affirmed At 'A/A-1' On Stabilizing Economic Risks In The Netherlands; Outlook Still Negative

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Overview

- In our view, the Dutch banking industry should benefit moderately from the domestic economy's gradual exit from a protracted correction phase.
- We consider that improving conditions in the housing market illustrate this trend, despite the still-weak commercial property market.
- In our view, the trend in domestic economic risk for Dutch banks is now stable.
- We are therefore affirming our 'A/A-1' ratings on Netherlands-based ABN AMRO Bank N.V.
- The outlook remains negative to reflect our view that we may remove one or both notches of government support from the ratings on the bank by year-end 2015.

Rating Action

On Nov. 4, 2014, Standard & Poor's Ratings Services affirmed its 'A/A-1' counterparty credit ratings on Netherlands-based ABN AMRO Bank N.V. (ABN AMRO). The outlook is negative.

Rationale

The affirmation reflects our view that the domestic economic risks under which Dutch banks operate are now stabilizing (see "Various Rating Actions Taken On Dutch Banks On Stabilizing Economic Risks," published today on RatingsDirect).

Under our base-case scenario, we expect that real GDP will grow by around 1% on average in 2014 and 2015, after a two-year recession in 2012 and 2013. We anticipate that domestic house prices will continue to increase moderately. We also expect a continued gradual reduction in private sector leverage, limited demand for credit, and a steady decrease in credit losses next year (albeit from a relatively high level).

Dutch property prices peaked in mid-2008 and had fallen by about 20% in mid-2013, an average annual decline of about 4%. Prices have since stabilized and started to increase moderately. Encouragingly, the volume of property transactions increased by about 40% in the first nine months of 2014 year-on-year. We expect this trend to continue and forecast moderate nominal house price growth of about 2% in 2014 and 2015, supported by improved conditions in the domestic economy, increased affordability of housing, limited housing supply, and greater certainty on fiscal policy reforms.

However, commercial real estate prices have continued to fall, a trend we expect to reverse only gradually from 2015. Gross household leverage remains elevated and growth in the eurozone (European Economic and Monetary Union) is forecast to be below average. Combined with ongoing geopolitical events that may encumber the export-orientated Dutch economy, we expect these factors to limit the improvement in the private sector. However, in our view, Dutch banks benefit from a diversified and competitive domestic economy, flexible fiscal policy, and adaptable labor market, underpinning the government's track record of reporting strong current account surpluses.

Beyond our view of the stable banking environment in The Netherlands, which underpins ABN AMRO's 'bbb+' anchor--the starting point in assigning an issuer credit rating--our view of the bank's stand-alone credit factors remains unchanged. ABN AMRO's stand-alone credit profile (SACP) is 'bbb+'.

Given the bank's reliance on its domestic economy, we expect the bank's performance to gradually improve as economic risks in The Netherlands stabilize. We also expect future economic developments in The Netherlands to determine, to an extent, the success of ABN AMRO's return to the private sector, a process which we assume will begin during 2015.

We consider that ABN AMRO's capitalization is on an improving trend. We project that the bank's risk-adjusted capital (RAC) ratio will increase to 8.0%-8.5% by end-2016, comfortably within the 7%-10% range we typically ascribe to an "adequate" capital and earnings assessment. This ratio stood at 7.5% at end-2013. In forecasting an improvement, we take into account our expectation that earnings retention will improve (despite our assumption of a dividend payout ratio of around 40% during the period) and lending growth will be limited.

We also note that, to date, the bank has made good progress in meeting increasingly strict regulatory requirements. It reported a fully loaded common equity Tier 1 ratio of 12.7% at end-June 2014, and the bank already estimates its liquidity coverage ratio and net stable funding ratio to be above 100%.

We expect that the ratings on ABN AMRO will be influenced by any change in our assessment of the SACP and our view of the prospects for extraordinary government support. We will also review other relevant rating factors when taking any rating actions. These might include any steps ABN AMRO might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments that would provide substantial additional flexibility to absorb losses while a going concern, beyond that recognized in our capital and earnings assessment.

Outlook

The negative outlook indicates that we may lower the ratings on ABN AMRO by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may lower the long-term counterparty credit rating by up to two notches if we consider that extraordinary government support is less predictable under the new EU legislative framework.

In addition to potential changes in government support, we will review other relevant rating factors in making any rating actions. These include potential changes in the SACP and any steps the bank might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments.

We could revise the outlook to stable if we consider that potential extraordinary government support for ABN AMRO's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or if we consider that other rating factors, such as a stronger SACP or a large buffer of subordinated instruments, fully offset increased bail-in risks.

We consider a revision of the SACP in either direction as unlikely at the moment. However, a track record of steady and sound operating performance, combined with a successful return to the private sector, could benefit our assessment of ABN AMRO's business position over time. Conversely, although not our base-case scenario, a renewed deterioration in the economy and ABN AMRO's relative asset quality in The Netherlands could put our risk position assessment under pressure.

Ratings Score Snapshot

Issuer Credit Rating	A/Negative/A-1
SACP	bbb+
Anchor	bbb+
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

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Various Rating Actions Taken On Dutch Banks On Stabilizing Economic Risks, Nov. 4, 2014
- Banking Industry Country Risk Assessment: The Netherlands, Nov. 4, 2014

Ratings List

Ratings Affirmed

ABN AMRO Bank N.V.	
Counterparty Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Senior Secured	A
Senior Unsecured	A
Subordinated	BBB-
Subordinated	axA-
Junior Subordinated	BB
Junior Subordinated	BB+
Certificate Of Deposit	A-1
Commercial Paper	A-1
ABN AMRO Funding USA LLC	
Commercial Paper*	A-1

*Guaranteed by ABN AMRO Bank N.V.

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