FITCH AFFIRMS ABN AMRO AT 'A +'/NEGATIVE; UPGRADES VR TO 'A-'

Fitch Ratings-London/Paris-31 October 2013: Fitch Ratings has affirmed ABN AMRO Bank N.V.'s (ABN AMRO) Long-term Issuer Default Rating (IDR) and Support Rating Floor (SRF) at 'A+'. At the same time, the agency has upgraded ABN AMRO's Viability Rating (VR) to 'a-' from 'bbb+'. The Outlook on the Long-term IDR is Negative. A full list of rating actions is at the end of this rating action commentary.

The upgrade of ABN AMRO's VR, which reflects the bank's standalone creditworthiness, recognises the continued improvements in funding profile, capitalisation and liquidity position achieved over the past two years despite the prolonged adverse economic environment in the Netherlands (where the bank generates around 80% of its income).

ABN AMRO's earnings and asset quality metrics benefited slightly in 2012 and substantially in H113 from write-backs on large 'legacy' exposures. Excluding these, underlying earnings have demonstrated satisfactory resilience thanks to recurring income from its solid franchise in domestic retail, private and commercial banking coupled with moderate risk appetite adopted since the 2010 merger between parts of the former ABN AMRO with the ex-Fortis Bank Nederland.

Fitch expects on-going stress on domestic asset quality to peak in 2013, but with significant lagging effects from the weak recovery in 2014. Fitch forecasts that Dutch GDP will decline by 1.3% in 2013 and stagnate in 2014. Unemployment is expected to be 7% on average in 2013 and 7.6% in 2014. The number of corporate bankruptcies reached historical highs in Q113. They have since dropped but remained elevated. Finally, housing prices (which dropped by 20% from their 2008 peak) showed signs of stabilisation in Q313 and in Fitch's base case scenario should bottom out from 2014.

KEY RATING DRIVERS - IDRS, SRFs AND SENIOR DEBT
ABN AMRO's Long-term IDR and senior debt ratings are at the bank's SRF of 'A+'. The SRF reflects Fitch's expectation that there is an extremely high probability that the Dutch state (AAA/Negative) will support the bank, given its systemic importance to the domestic economy and financial system.

RATING SENSITIVITIES - IDRS, SRFs AND SENIOR DEBT
ABN AMRO's IDRs, SRF and senior debt ratings are sensitive to a change in Fitch's assumptions about the on-going availability of extraordinary sovereign support to the bank. Changes in assumptions could be driven by a change in either the sovereign's ability (for example, triggered by a downgrade of the Netherlands' sovereign rating) or in its perceived willingness to provide such support. The Negative Outlook on ABN AMRO's Long-term IDRs mirrors that on the Dutch sovereign.

In Fitch's view, there is a clear intention ultimately to reduce implicit state support for financial institutions in the EU, as demonstrated by a series of legislative, regulatory and policy initiatives. On 11 September 2013, the agency commented on its approach to incorporating support in its bank ratings in light of evolving support dynamics for banks worldwide (see 'Fitch Outlines Approach for Addressing Support in Bank Ratings', 'Bank Support: Likely Rating Paths', and 'The Evolving Dynamics of Support for Banks' available at www.fitchratings.com).

ABN AMRO's IDRs, senior debt ratings and SR would be downgraded and the SRF revised down if Fitch concluded that potential sovereign support had weakened relative to its previous assessment.

Given ABN AMRO's VR is 'a-', any support-driven downgrade of the bank's Long-term IDR and senior debt ratings would be limited to two notches.

KEY RATING DRIVERS - VR
ABN AMRO's VR considers its solid domestic retail, private and commercial banking franchise, which have enabled it to generate satisfactory recurring income and to weather a tough environment. The bank has a market share of around 20%-25% in retail and commercial banking in the Netherlands and the private banking division is the clear domestic leader in private banking, with around 40% of domestic assets under management. Fitch does not expect ABN AMRO to report an improvement in its underlying operating profit for FY13 compared with 2012 as loan impairment charges (excluding large write-backs) will remain high (above 50bp of average gross loans). 2014 profitability will suffer from the lagging effects of the economic recession and under Fitch's assumptions, earnings will remain subdued but should start to improve thereafter. Reserve coverage of impaired loans is higher than its Dutch peers and in the mid-range for large European banks (52% at end-June 2013, as calculated by Fitch).

The quality of the bank's substantial mortgage book (representing more than half of the bank's loan book) has declined in line with rising unemployment but the reported impaired loans ratio remains low (1.1% at end-June 2013). The VR takes into account the agency's view that deterioration will continue but that this asset class will continue to perform well, as a number of mitigating factors (such as an on average wealthy population, the expected gradual recovery in house prices, around 25% of mortgages being covered by a state-owned fund, and a 'lender-friendly' legal environment) offset the notable risks of the Dutch mortgage book. Risks include limited (if any) amortisation in the vast majority or the book, the 20% decrease in housing prices since 2008 and, hence, the very high average loan-to-value (83.5% at end-June 2013) of the portfolio.

ABN AMRO remains reliant on wholesale markets, reflected by a somewhat high 128% loans-to-deposits ratio (as calculated by Fitch), a structural feature of Dutch banks. Access to the confidence-sensitive capital markets is therefore key to the bank, and ABN AMRO has retained good access in recent years for both senior and subordinated debt. Liquidity management alleviates some of the refinancing risk from its wholesale funding reliance. The bank maintains a high liquidity buffer, but half of it is not considered to be "High Quality Liquid Assets" for the purpose of the Basel III Liquidity Coverage Ratio (91% at end-June 2013).

The bank's capital ratios are solid (Basel III 'fully-loaded' capital ratio of 11.5% at end-June 2013), but the low risk-weights in its large mortgage book mean that this still translates into significant leverage.

RATING SENSITIVITIES - VR
The bank's VR incorporates the expected gradual easing in asset quality strains and improved underlying profitability, which will contribute to strengthening the bank's solid capital and good liquidity, and maintain healthy access to capital markets. Any material deterioration in the bank's earnings generation or asset quality (notably in the large domestic residential mortgage book), affecting its capital and, potentially, access to/cost of wholesale funding would be detrimental for ABN AMRO's VR.

RATING DRIVERS AND SENSITIVITIES - GOVERNMENT-GUARANTEED DEBT
ABN AMRO's state-guaranteed debt securities are rated 'AAA', reflecting the sovereign Dutch guarantee and are consequently sensitive to any change in the Netherlands' rating.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
The ratings of ABN AMRO's subordinated debt and other hybrid capital securities are all notched down from the bank's VR in line with Fitch's methodology for rating such securities. Their upgrade mirrors that of the bank's VR. The notching derives from Fitch's assessment of each instrument's

non-performance and relative loss severity risk profiles, which vary considerably. These securities' respective ratings are sensitive to any change in the bank's VR.

SUSBIDIARY AND AFFILIATED COMPANY KEY RATING DRIVERS AND SENSITIVITIES
ABN AMRO Funding LLC is a US based funding vehicle fully-owned by ABN AMRO and the rating assigned to the US commercial paper (CP) debt securities issued by the vehicle is aligned with ABN AMRO's Short-term IDR, based on Fitch's view that there is an extremely high probability of support from ABN AMRO if required. This view is evidenced by the fact that ABN AMRO guarantees the securities issued by ABN AMRO Funding LLC.

The rating assigned to ABN AMRO Funding LLC's US CP debt is therefore sensitive to any change in ABN AMRO's Short-term IDR.

The rating actions are as follows:

ABN AMRO
Long-term IDR: affirmed at 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1+'
Viability Rating: upgraded to 'a-' from 'bbb+'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+'
Commercial paper: affirmed at 'F1+'
Long-term senior unsecured notes: affirmed at 'A+'
Short-term senior unsecured notes: affirmed at 'F1+'
Subordinated debt: upgraded to 'BBB+' from 'BBB'
Non-innovative Tier 1 subordinated debt (XS0246487457): upgraded to 'BB+' from 'BB'
Upper Tier 2 subordinated debt (XS0244754254): upgraded to 'BBB-' from 'BB+'
Dutch government guaranteed securities: affirmed at 'AAA'/'F1+'

ABN AMRO Funding USA LLC
Short-term senior unsecured notes: affirmed at 'F1+'

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012', 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 5 December 2012, 'Rating FI Subsidiaries and Holding Companies' dated 10 August 2012 and 'Evaluating Corporate Governance' dated 12 December 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181
Assessing and Rating Bank Subordinated and Hybrid Securities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695542
Rating FI Subsidiaries and Holding Companies
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679209
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649
The Evolving Dynamics of Support for Banks
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715000
Bank Support: Likely Rating Paths
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