FitchRatings

FITCH AFFIRMS ABN AMRO BANK AT 'A+'; OUTLOOK STABLE

Fitch Ratings-London-24 February 2017: Fitch Ratings has affirmed ABN AMRO Bank N.V.'s Long-Term Issue Default Rating (IDR) at 'A+' with a Stable Outlook, Viability Rating (VR) at 'a' and Short-Term IDR at 'F1'. A full list of rating actions is at the end of this rating action commentary.

In addition, Fitch has assigned a 'A+(dcr)' Derivative Counterparty Rating (DCR) to ABN AMRO Bank as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

KEY RATING DRIVERS
IDRS. DCR AND SENIOR DEBT
ABN AMRO's Long-Term IDR and senior debt ratings are one notch above the bank's VR because Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR.

The one-notch uplift reflects the bank's significant qualifying junior debt buffer, which could be made available to protect senior obligations from default in case of failure, either under a resolution process or as part of a private-sector solution (ie distressed debt exchange) to avoid a resolution action.

Without such a private sector solution, we would expect a resolution action to be taken on ABN AMRO when it breaches minimum capital requirements. We have assumed that the intervention point would be around the bank's current minimum common equity tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2 - excluding the capital conservation (CCB) and the domestic systemic importance (DSIFI) buffers).

We further assume ABN AMRO would need to meet its total minimum capital requirements immediately after a resolution action, which on a fully loaded basis, including the CCB and DSIFI buffers, currently amounts to 15.25%. Taking also into account additional undisclosed Pillar 2 guidance as well as potential risk weight increase in a stress scenario, a qualifying junior debt buffer of 10% of total risk exposure amount (REA) would most likely be sufficient to restore the bank's viability without hitting senior credits.

At end-2016, the qualifying junior debt buffer was 11.7% of REA. The bank has to date met requirements for own funds and eligible liabilities (MREL) through capital and subordinated instruments, and Fitch therefore expects some continued issuance of subordinated instruments. The bank will potentially also use non-preferred senior debt in the future for the same purpose. As non-preferred senior notes do not qualify towards the qualifying junior debt buffer, a material reduction of the latter (below 10% of REA) could lead to a downgrade of the Long-Term IDR, but the rating of preferred senior notes would likely still benefit from a combined buffer of qualifying junior debt and non-preferred senior notes.

A DCR has been assigned to ABN AMRO due to its significant derivatives activity. The DCR is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

The Short-Term IDR of 'F1' maps to the lower of the two options of the 'A+' Long-term IDR. While Fitch believes ABN AMRO's funding and liquidity is solid, it is not outperforming similarly rated peers.

VR

ABN AMRO's VR reflects its strong Dutch franchise, complemented by its international private banking and energy, commodities and transportation franchises (ECT), which provide it with resilient revenue generation. The ratings also take into account the bank's continued focus on maintaining a moderate risk profile, expected gradual asset quality improvements, and limited geographical diversification.

We expect the bank to maintain conservative credit standards as the state gradually divests its holdings in the bank, and that the strategic direction will not change materially. The underlying asset quality improved somewhat in 2016, with a decrease in impaired loans across domestic retail and corporate lending being partly offset by an increase among ECT clients. The ratio of impaired loans to gross loans was 3.3% at end-2016. Low-risk Dutch mortgage loans represent over half the bank's loan book.

ABN AMRO's profitability is good and compares well with similarly rated peers' profitability. The bank's underlying return on equity was 11.8% in 2016, well within its target of 10-13%. Fitch expects the bank to continue to benefit from good revenue generation, a reducing cost base and low loan impairment charges.

ABN AMRO's risk-weighted capitalisation is good and compares well with peers', while its leverage is more moderate. Its fully loaded CET1 ratio was 17.0% at end-2016, and its fully loaded leverage ratio was 3.9%. Fitch expects the bank to maintain solid capitalisation, underpinned by resilient internal capital generation, limited loan growth and a moderate dividend payout ratio (50% target from 2017).

The bank's funding is fairly diverse. The reliance on wholesale funding has reduced in recent years, but the large mortgage loan market in the Netherlands combined with significant pension savings (resulting in limited inflow of deposits into the banking system) mean ABN AMRO is likely to maintain some wholesale reliance. Access to the wholesale markets is good and is via a diverse set of instruments, but having strong liquidity is key to upholding market confidence. The liquidity buffer is ample and of good quality.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that ABN AMRO becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and hybrid securities issued by ABN AMRO are notched off ABN AMRO's VR. Subordinated (Tier 2) debt is rated one notch below ABN AMRO's VR to reflect above average loss severity of this type of debt compared with average recoveries.

ABN AMRO's CRD IV-compliant perpetual non-cumulative additional Tier 1 instruments are notched five times below the bank's VR. The notes are subject to automatic temporary write-down if ABN AMRO Group N.V.'s consolidated common equity Tier 1 (CET1) ratio falls below 7% or ABN AMRO's standalone CET1 falls below 5.125%, and any coupon payments may be cancelled at the discretion of the bank. The notching reflects two notches for loss severity in light of the notes' deep subordination and three notches for additional non-performance risk relative to the VR given a high write-down trigger and fully discretionary coupons

SUBSIDIARY AND AFFILIATED COMPANY
ABN AMRO Funding LLC is a US-based funding vehicle fully owned by ABN AMRO. The rating of the US commercial paper 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 underpinned by ABN AMRO's guarantees on the securities issued by ABN AMRO Funding LLC.

RATING SENSITIVITIES
IDRS AND SENIOR DEBT
As the Long-Term IDR and senior debt ratings are notched up from the ABN AMRO's VR, they are sensitive to a change in the bank's VR.

The Long-Term IDR and senior debt ratings are also sensitive to a material reduction in the size of the qualifying junior debt buffer, in particular should it fall below 10% of REA. The notching is sensitive to changes in assumptions on resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally. The long-term IDR will be downgraded if the bank replaces a substantial amount of qualifying junior debt with non-preferred senior notes, but preferred senior debt may in this case receive a one-notch uplift from the Long-Term IDR, provided the combined buffer of qualifying junior debt and non-preferred senior notes exceeds 10% of REA.

VR
Downward pressure on ABN AMRO's ratings, although not expected, would most likely result from a material deterioration in the bank's earnings generation or asset quality, affecting its capital or access to/cost of wholesale funding.

ABN AMRO's long-term strategy includes maintaining a moderate risk appetite. Fitch does not expect changes to the bank's strategy, but significant deviations from the moderate risk appetite and/or operating with reduced liquidity or capital buffers could be rating negative.

The current high VR, particularly considering the limited geographical diversification, mean upside potential is limited

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital are all notched down from the bank's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in ABN AMRO's VR.

Additional Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in ABN AMRO's VR.

SUBSIDIARY AND AFFILIATED COMPANIES
ABN AMRO Funding LLC's debt rating is aligned with ABN AMRO's short-term debt rating and is therefore sensitive to changes in ABN AMRO's Short-term IDR.

The rating actions are as follows:

ABN AMRO Bank N.V.
Long- Term IDR: affirmed at 'A+': Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative counterparty rating: assigned at 'A+(dcr)'
Long-Term senior unsecured debt rating: affirmed 'A+'
Commercial paper: affirmed at 'F1'
Short-Term senior unsecured notes debt rating: affirmed at 'F1'
Subordinated debt: affirmed at 'A-'
Additional Tier 1 securities (XS1278718686): affirmed at 'BB+'

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

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Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051